The Bargain Theory of Wages

Davidson

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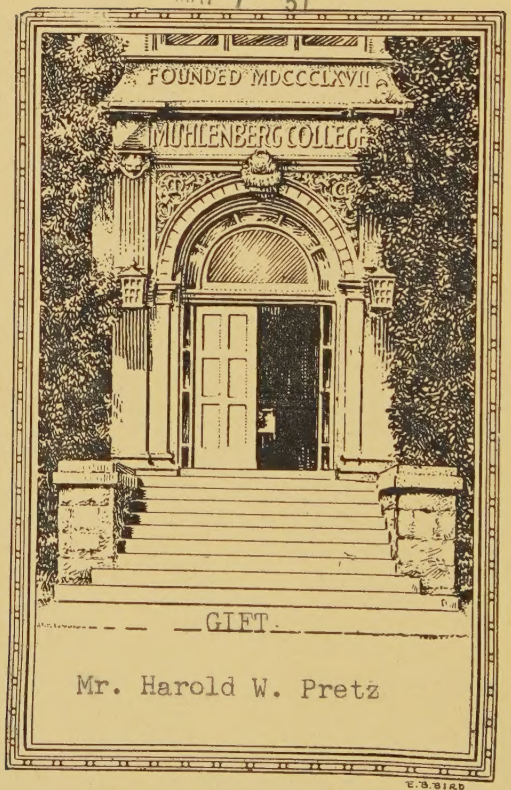
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The Bargain Theory of Wages

A Critical Development from the Historic Theories, together with an Examination of certain Wages Factors : the Mobility of Labor, Trade Unionism, and the Methods of Industrial Remuneration

By

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PREFACE.

SOMETHING like an apology seems due from a writer who ventures to add an essay on the Wages Question to the already enormous number of essays and treatises on that well-worn subject; but the writer has found the lack, for the purposes of teaching advanced students, of such a book as he has endeavored to prepare. There is no treatise presenting in a fairly compact form the problems of wages which it seems desirable to bring before the attention of such students. The systematic treatises and text-books in economics necessarily give but scant treatment to the problem of the evolution of the theory of wages; and the monographs on the wages question are, in general, too polemical and one-sided to be suited even for advanced class work.

The present essay is the outcome of the attempts of the writer, during five years, to analyze the wages question, historically as well as theoretically. He began with the theory presented by the late President Walker in his *Wages Question*, but was soon forced to give as a supplement an exposition of the

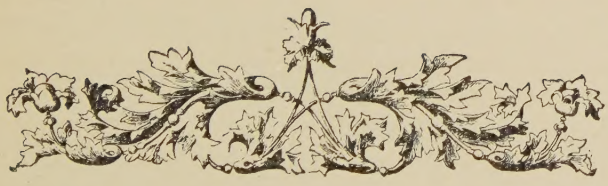
history of wages theory; and gradually came to find that the theories were not mutually antagonistic but, in a sense, complementary. A study of the Austrian theory of value showed him how it was possible to reconcile these divergent theories; and *The Bargain Theory of Wages* is the result.

The comparative absence of references is in part due to the fact that quotations, etc., were inserted in his lecture notes during vacation study, and that he had no opportunity at the time of writing to verify them. He has, therefore, judged it best to omit such references as he could not verify. The woes of a scholar in exile he had better keep to himself; but the inadequacy of the historical parts of the essay, of which the writer is fully conscious, may be partly excused in one who is some four hundred miles from any library even half as good as his own.

My obligation to Prof. Taussig's *Wages and Capital* in the chapter on the Wages Fund, and generally to Mr. Cannan's *Production and Distribution*, and to Dr. Smart's *Studies in Economics*, is great and obvious; and I owe many obligations which it is not possible so definitely to acknowledge. Acknowledgment is due to the courtesy of many correspondents, personally unknown, who have taken much trouble in obtaining information for me; and in particular to Mr. Ochiltree Macdonald and the Hon. Robert Drummond of Nova Scotia; to Mr. Stavart of St. John's, Newfoundland; to Miss Jean Davidson of Edinburgh; to Prof. Nicholson, who read the essay in manuscript and by many helpful suggestions en-

abled me to correct some of the disadvantages of isolation ; to my colleague, Prof. Stockley, for assistance in preparing the manuscript for the press ; and to my wife, who drafted the diagrams and assisted in the preparation of the index.

The University of New Brunswick,
Fredericton, N. B., December, 1897.



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THE BARGAIN THEORY OF WAGES.

CHAPTER I.

THE SUBSISTENCE THEORY.

THE great historical theories of wages correspond in their order and in their character with the stages in the development of labor from the disappearance of slavery and serfdom to the rise of real freedom. Although legal slavery and serfdom had disappeared in England centuries before the Industrial Revolution, there was still sufficient survival of its spirit to incline men towards a view of wages which is true, in its full extent, only of slave labor. Down to the beginning of the present century there were legal restrictions on the movement of laborers from one parish to another; and colliers in Scotland were even then transferred with the pits in which they labored. The general conditions of dependence were such that the economic effects did not differ

very much from the actual effects of legal slavery. The effect of the Industrial Revolution was gradually to change all this. The number of hired laborers increased every year; and the pressure of competition qualified the supremacy of the employer. His domination of the industrial world became merely a predominance. The power of the employer was still indeed very great, and he was able to dictate almost any terms he pleased to those who depended on him for employment; but the development of Trade Unionism and the growth of the political power of the working classes brought a greater change. The legal restrictions on the movements of the laborer had disappeared, and the progress towards democracy gave the laborer strength to treat with his employer as with an equal and not with a superior. The centre of political gravity had shifted, and, despite belated attempts at feudal and despotic government, the balance of economic power was with the employees rather than with the employers; and labor became the predominant partner. The working classes had been the first to learn the secret of open combination, and from them the employers have learned, or are learning it. The tacit combinations of employers to keep down wages, to which Adam Smith referred, had broken down before the stress of competition of master with master; and when competition was discovered to be suicidal, the employers openly associated and combined, to meet the combinations of the working classes and to make their own power effective. They

quickly recovered from the unnecessary panic into which the development of Trade Unionism had thrown them, and quickly recovered much of their lost ground. The condition of industry to-day is one of opposing combinations of masters and men; and an armed peace as the result of negotiations.

The development of the theories of wages corresponds, in a certain measure, with the evolution of industrial freedom. The theories, it is true, follow the development of the social phenomena afar off; and we must not strain the parallelism. The earliest theory is the doctrine that wages are determined by the cost of the subsistence of the laborers; and it is obviously based on a real or assumed analogy between wage labor and slave labor. It assumes the absolute supremacy of the employer, though his supremacy is created by the self-imposed degradation of the employees under the tyranny of the sexual instinct. The change in the position of the employer from domination to mere predominance is followed by the development of the Wages-Fund Theory, in which the measure of the wages is the intention of the capitalist employer. A certain measure of freedom is, in this theory, accorded to the laborer. He can, at least, raise his wages by exercising self-restraint and restricting his numbers; but the employer is still the dominant factor in the wages problem. The Wages-Fund Theory gave place to the Productivity Theory, in which the determination of wages is apparently regarded as almost entirely within the laborer's own power. Wages are

paid according to the efficiency of the laborer, and the employer has almost nothing to do with the wages question but to pay the wages. The earlier positions are reversed. The laborer becomes the residual owner of the product—for production has become, explicitly, the co-operation of capital with labor. This theory, however, the acceptance of which dates from the year of Mill's recantation of the Wages-Fund Theory, under the influence of his growing interest in the growing power of Trade Unionism, greatly exaggerates the independence of the laborer's position. It takes no account of the combinations of employers, tacit or avowed; and the influence of such combinations in the determination of wages cannot be ignored. The theory of wages, consequently, is tending to change to a form in which the supremacy of no one party in the wages transaction is assumed. Neither the employer, as in the earlier theories, nor the emlpoyee, as in the latest, can be regarded as the sole determiner of wages. The employer is not a donor, nor is the employee the owner and dictator of wages. Employer and employed are opposed to each other as bargainers in a market where, through various causes, their forces are about equal. Wages are to be regarded as determined in the way in which all bargains are concluded—partly, by the estimate which each party to the bargain has formed of the value of the subject of the bargain, and, partly, by the comparative strength and knowledge of the bargainers in bargaining. All the earlier theories

attempt to establish one determining principle of wages according as they recognize the supremacy of the employer or the supremacy of the laborer. This theory, based on the phenomena of organization of employers and employed in combinations of approximately equal strength, puts forward two determining principles, or, more accurately, asserts that the wages of labor will be determined between two estimates as limits.

The object of this chapter, and of the two succeeding, is to establish, by means of a critical examination of the earlier theories, the theory of wages as a bargain; and the result will, it is hoped, demonstrate, in the fourth chapter, that this eclectic theory embodies all that is of permanent value in the earlier theories. The doctrines of the prevailing philosophy have convinced all men that no great movement can be entirely wrong; and assuredly no great theory can be utterly rejected. We shall find that the subsistence theory provides one determining principle and the productivity theory another; but, instead of choosing one or the other, and claiming half the truth as the whole truth, we shall find that the subsistence theory gives us the seller's estimate of what he has to sell, and the productivity theory the buyer's estimate of what he enters the market to buy; and that the Wages-Fund Theory, in one of its propositions, states the force which determines where, between those limits, actual wages are determined, and, moreover, gives the outlines of the complete theory.

The first important and scientific theory of wages is that the reward of labor is determined by the cost of subsistence of the laborers. This theory has been called by various names—the Theory of Natural Wages, the Ricardian Theory, the Iron Law of Wages, the Standard-of-Comfort Theory, and the Doctrine of a Living Wage; but no one of these labels is quite satisfactory. In adopting the title of the Subsistence Theory, we adopt a title which is explanatory of the common element in all the phases of the theory, and yet does not gratuitously invite criticism, as the Iron Law of Wages does, for instance.

The Subsistence Theory has gone through somewhat remarkable variations; but the change has been rather in the sentiments of the advocates than in the substance of the theory. The earliest writers and, on the whole, Ricardo himself, to say nothing of the socialists who claim to be Ricardo's true seed, have interpreted the law very pessimistically. The socialists have denounced the iron law as the crying evil and iniquity of our present social system; but the modern advocates of the theory seem to regard the law as opening a door of hope for labor. The change is not in the substance of the doctrine. Even Ricardo, at times, as we might show, regarded the cost of subsistence as a variable minimum, not necessarily coincident with the cost of physical life. His passing admissions have been taken up and amplified by the modern adherents of the theory till the theory itself seems transformed. Yet Mr. Gunton, the

most ardent, as he is the most scientific, of the optimists, does not claim that wages should vary with every, the slightest, variation of the standard. The theory has changed its sky but not its nature. The difference between the early and the later forms of the theory is due to the generally changed attitude towards labor questions. Ricardo, writing at a time when the first and most lasting impression made by Malthus was one of the most important facts in the world of economic theory, was pessimistic and regarded wages as tending naturally to fall as low as possible. Mr. Gunton, and the self-constituted spokesmen of the modern labor movement, writing after half a century's progress of the working classes and steady rise of wages, regard the standard of subsistence as a method of raising wages. But the essence of the theory is in both cases the same. The value of labor is determined from the side of labor alone. The sole determinant is the cost of the commodities on which the laborer subsists; whether this cost be regarded as determined by the rapacity of the capitalist (as the socialists say), by the tyranny of the sexual instinct, or by the firmness with which the working classes maintain their customary or assumed mode of life. The force which operates to make the cost of subsistence the standard of wages differs according to the standpoint of the theorist; but, in all cases whatever, the substance of the theory is the same.

Adam Smith, and his successors, treated the theory of distribution as if it were only a branch of

the theory of production. In wages as wages they had little interest. The chapter in the *Wealth of Nations* dealing with wages is the first of four chapters discussing the component parts of price. Wages were thus regarded mainly as an element in the cost of production; and it was natural that, when the reward of labor was, for the moment, considered in itself, the general point of view should be retained and the discussion of wages become a discussion of the component parts of the cost of production of labor. His treatment of wages is fruitful of suggestions; and germs and illustrations of all the later theories may be found within the narrow limits of that one chapter; but the natural development was in the direction of a theory of wages which finds the explanation in the cost of production of labor.

No one has ventured to advance a naturalistic interpretation of the cost of production of labor. The phrase has always been interpreted in terms of the cost of the commodities necessary for maintaining life. The cost of production of a machine—and labor, from this point of view, is only a more costly because a more complex machine—is, firstly, the cost of the fuel and the other requisites of its operation, and, secondly, the reserve set aside against depreciation for renewing or replacing the machine when it is worn out. These two items in the case of labor are the cost of maintaining the laborer in working condition, and the cost of rearing new supplies of labor to take the place of the old when, in the course of nature, that is worn out or superan-

nuated. But the analogy from machinery seems to lead us too far. The reserve set aside for replacing and renewing a machine remains in the possession of the owner; but the new supplies of labor, for the provision of which allowance, according to the theory, must be made, are not the property of the employer except under the conditions of slavery. The criticism, therefore, raised against the theory on this point is not without justification. The analogy is pressed too far to the neglect of the obvious fact of the difference between persons and things. The difference is essential. There is no necessity that an employer should have such a tender regard for the interests of employers of the next generation as to make him pay higher wages to maintain the supply of labor and replace the labor which is worn out. Most employers are content that there should be profit in their time, and quite willing to be as Irish as Sir Boyle Roche in their disregard of posterity. If the early economists had interpreted the law in the same way as the socialists, who have forcibly entered into their labors, the objection that the theory was inconsistent would be perfectly sound. The cost of rearing and educating a family cannot strictly be included within a minimum of subsistence. If this item is included in the cost of production of labor, we cannot rightly speak of a minimum of subsistence. But for the early economists it was not the rapacity of the employer but the strength of the principle of population which made the cost of subsistence the measure of wages;

and the principle of population, not unnaturally, admits the inclusion, within the minimum, of an amount sufficient to prevent the race of laborers from becoming extinct.

There can be no manner of doubt that, in the long run, wages are sufficient to cover both the cost of maintaining the laborer and the cost of rearing the new supplies. If industry is to continue, and industry does continue, both items of the cost must be met, and both items, therefore, are met. Wages are sufficient to cover the cost of production, but are they more than sufficient? Is there a surplus accruing to labor as a whole, over and above the amount necessary to cover the cost? The question is often rendered more difficult of answer because of a failure to make an obvious distinction. We are in the habit of estimating wages simply in gross, whereas rent and interest are net returns. The absolute necessity that the capital expended in production should be replaced is at all times asserted; and, over and above the capital sum replaced, it has generally been recognized that a payment should be made for the use of the capital, or (as we may say without prejudice) as the reward of abstinence. The returns of capital, however, are not estimated as a gross, but purely as a net return. Interest is the return to capital, and that is not said to be 103 or 110, but three or ten per cent. Over and above the capital sum a further payment is made. Rent is also a purely net return. The natural properties of the soil remain practically intact; and the land-

owner's share is regarded, not as his land returned to his keeping in its original condition plus the rent he receives for its use, but simply as the rent which he obtains. In the case of wages, the treatment is different. Wages are treated as if they were a net return comparable in some way with the three or the ten per cent. of interest. No distinction is made, as in the case of capital, between the refunding of the energy expended and the payment for the use of that energy. Both are lumped together, and the only attempt made to distinguish them is in the theory and practice of taxation when a minimum is exempted. Yet the laborer, as we may say, by convenient analogy, has invested his capital fund in production just as really as the capitalist has his; and there is the same necessity that this expenditure should be refunded, if production is to be economical. This expenditure is the energy spent in labor and includes more than mere physical exertion. The energy expended varies in kind as well as in degree; and the energy refunded must be an exact equivalent of what is expended. The energy expended by an artisan in a higher skilled trade requiring a large amount of attention, or the nervous energy expended by a common school teacher, are different in kind as well as in degree from that expended by a common day laborer; and the amount refunded must vary accordingly. The return to labor must, at least, be such as will enable each worker to start his work on the morrow in the same condition as he started the previous day or the pre-

vious week. The standard of his efficiency must be maintained. It is true that, just as capital may be so invested that it not only does not receive a net return in the shape of interest but may itself not be refunded, labor may be so employed, by itself or in the service of another, that the reward of labor is not sufficient to replace the energy expended. In this case the result is the degradation of labor. On the whole, and in the long run, the wages of labor are sufficient to refund the energy expended, but are they ever more than sufficient? Does labor, like capital, obtain a surplus, or a net return? Labor has the same right as capital has (if we may speak of right in either case) to demand a surplus return, over and above the refunding of the energy expended; and, if labor does not receive a net return, corresponding to interest, it must be because there is something special in the conditions of labor which prevents this result.

The advocates of the subsistence theory have generally contended that labor must and does obtain a return sufficient to refund the energy expended; but they have not always gone on to ask whether labor receives anything over and above.* Interest, according to the popular view, is necessary because, without it, capital would not be saved and invested in sufficient quantity to maintain industrial efficiency. Is labor entitled to demand a similar net return, or

* Adam Smith's suggestive analysis of the standard of subsistence (see note, p. 23) was not taken up until the theory was being tried, to be found wanting.

are there forces at work which enable the employers directly, and society indirectly, to disregard this demand of labor? Now labor involves disutility as fully and as certainly as saving involves abstinence and self-denial. The laborer has, it is true, less to gain and more to lose by refusing to work, than the capitalist has in not abstaining from consuming his wealth. The laborer is dependent for his life on his working; but the capitalist need only not practise self-denial. However, since labor involves disutility, simply to replace the energy the laborer has expended will not always be sufficient. The laborer is not a machine, but a human being actuated by individual and personal motives and feelings; and he is little likely to spend himself simply that his expenses may be refunded. Individuals may be so inclined; but the great mass of men value themselves more highly. If there is not a net return in cases where the disutility of labor, from whatever cause, is great, the laborer will content himself with the expenditure of but little of his energy. In order to obtain the best results, it will always be found necessary that something more than the maintenance of the *status quo ante* should be assured. There are those who must save and those who cannot help saving, and for them the net return to capital need not be high; but a certain rate of interest has been found to be necessary to call out that amount of abstinence from the immediate utilities in consumption as will enable industry to be carried on and extended. So although all laborers (or nearly all)

must labor to continue living, a net return to labor is necessary to get the best industrial results from the laborer.

The early advocates, at least, of the subsistence theory declare, in effect, that a net return to labor is unnecessary and, in the long run, improbable. The glory of going on and still to be, is, in their view, a sufficient incentive to overcome the disutility of labor. The necessity of living provides a strong enough incentive. The laborer must live and to live must be prepared to sacrifice his comfort. He has no reserve on which to subsist; and the stern necessities of daily life compel him to work for that which is just sufficient to enable him to subsist. Should he, by the benevolence of his employer, or through the force of public opinion, or from accident, obtain a higher reward than is necessary to enable him to subsist, he will either labor less, or he will indulge himself in such a way as eventually to bring down his enhanced wages to an amount which simply enables him to continue. Among semi-civilized and indolent races, work will cease when enough has been earned to provide subsistence; among civilized people, the effect of a surplus over the cost of subsistence will be to increase competition till wages fall to the subsistence limit. The wages of going on may be very much higher in one country than in another. The intensity of labor differs in different countries; and consequently a greater or less amount is required to replace the energy expended. Wages must, in the long run,

be sufficient to cover the expenditure, but, in the long run, they need not be more than sufficient; for the necessity of making a living is a force strong enough to counterbalance the disutility of labor.

The gradual change in the subsistence theory of wages was due, in part, to the fuller recognition of the fact that labor is of varying degrees of intensity and hence involves a greater or less expenditure of energy. Ricardo and the early exponents seemed to regard all labor as being of one quality and hence as involving the expenditure of equal amounts of energy. Wages, therefore, were taken to be the equivalent which was necessary to replace this energy. The actual variations of wages were explained by means of the distinction between market wages and natural wages. Except in a theoretical case, wages were determined by the amount of commodities necessary to sustain the life of the laborer; and this amount was not considered as varying from individual to individual, but as determined absolutely by constant physiological conditions. The theory, at this stage, takes practically no account of the fact that the expenditure of energy is not always an expenditure of bodily force. Yet there is no common term which will enable us to compare the energy severally expended say by a school teacher, a newspaper compositor, and a dock laborer. Each may be correspondingly equipped for, and efficient in, his work; and at the end of a day's labor each may be correspondingly worn out. To enable them to begin the morrow's work with their former effi-

ciency, each requires a different kind of treatment and recuperation. The minimum of subsistence which will effect this result is so different in each case that to use the term physical minimum, as applying indifferently to all three, is to darken counsel by words without knowledge. The laborer will probably require more food than the other two. The workingman is a better customer to the grocer than a professional or semi-professional man with twice the salary of the workingman. Yet the fact that a teacher eats less, but is more fastidious about what he eats, affords us no warrant for declaring that the greater part of his expenditure could be dispensed with because his physical minimum, estimated in pounds avoirdupois, is less than the physical minimum of a dock laborer. So, even if we take the standard of subsistence as a physical minimum including no surplus, we must yet admit that the physical minimum will vary according to the nature of the occupation. The only real measure there can be of a minimum of subsistence is the amount of the necessaries, comforts, and luxuries of life which is necessary to enable each worker to begin each day's labor with his energy restored. The physical minimum in other words must be relative to the industry in which the laborer is engaged and be sufficient to maintain the existing standard of efficiency. But a physical minimum, interpreted in this way, is far too variable to afford a foundation for a law of wages; and it was natural, especially in view of the prominence of Malthus's doctrine, that the minimum

should be interpreted physiologically rather than industrially. A physiological minimum does, and an industrial minimum does not, provide that element of certainty and stability which is necessary in the determinant of wages.

Ricardo's logical mind discerned that it was impossible to base a scientific law of wages upon a varying foundation. There must be some power behind the law to determine wages in accordance with it. Without this power, the law can have but little scientific importance. The power which brings the law into operation Ricardo and his contemporaries and successors found in the principle of population. Mr. Gonner is somewhat indignant that Ricardo should habitually be misrepresented as putting forward a fixed and invariable standard; and passages might be quoted, such as Chapter V., p. 74, of the *Principles* (Gonner's edition), in which Ricardo somewhat despondingly remarks that the natural price of labor is " not absolutely fixed and constant." But Ricardo was too logical, and also too much under the domination of the Malthusian idea, to lay much stress on the exceptions he allows. It was necessary for scientific exactness that the standard should be fixed, and the principle of population at once suggested itself as the power which made the law operative. The pressure of population against the limits of subsistence is due to the strongest force in human nature, and, although Malthus, in the later editions, ceases to be a Malthusian, the popular impression of his doctrine remained

firm that no institution or custom was strong enough to stand long as a bulwark opposed to the principle of population. The dread of over-population (which, in the strictest Malthusian sense, however, is an impossibility) made every economist tremble for the safety of any institution which did so oppose itself. Consequently, to Ricardo and his successors, the possibility of any standard of comfort higher than the physiological minimum was only theoretical. Yet, as the industrial conditions became more favorable to labor, wealth increasing faster than population, economists came to have that better understanding of the doctrine of population to which Malthus himself had come, and the idea of a standard of comfort, a conception more closely in accordance with the facts, replaced the physiological minimum as the determinant of wages. Unfortunately, the farther we depart from the physiological minimum and the more elastic the standard is allowed to become, the less satisfactory does the standard of subsistence become as the basis of a scientific theory. Ricardo had, on the whole, an invariable standard, because wages cannot fall below a physiological minimum and remain below if industry is to continue. The elastic standard of comfort cannot be used with the same effect, unless we can demonstrate that the standard of comfort is so supported by custom and so entrenched behind all the moral abhorrence which men can muster against a lower order of living, that it is practically impossible to force men to accept any other.

The fact that on less than represents a standard of comfort a man may, for a time, support life, is the source of danger. If industry were always progressive, or even permanently in a stationary state, a standard of comfort might possess stability; but modern industry is subject to periodical fluctuations; and, during depressions, large numbers, and a comparatively large proportion of the working classes, are out of employment and may therefore be faced with the alternative of starvation or the acceptance of a wage lower than will permit the maintenance of the standard of comfort. Is not the life more than meat, and the body than raiment? they may urge, unanswerably, to their protesting habits and prejudices. It is hard to understand how any prejudice in favor of a particular manner of living can withstand such an appeal, and, under modern industrial conditions, such an appeal has often to be made. It is waste of words to speak of a stable standard of comfort when ten per cent., and more, of the working classes may be out of work; and yet, without stability, the existence of a standard of comfort has little bearing on the problem of the determination of wages. It is to a consciousness of the tendency of irregularity of employment to lower the standard of living that the modern demand for fixing the living wage is due. The standard of a living wage is not fixed far in advance of what the members of the working classes can conceive. It is, on the contrary, determined as the ordinary standard of comfort at which, in pros-

perous times, the working classes live. It has been objected, and objected rightly, that to establish such a standard wage must have the effect of reducing employment and throwing the less efficient out of work; but it is answered that, for the best interests of the working classes as a whole, total lack of employment for some is better than irregularity of employment and wage for all. While all are subject to the irregularity due to the fluctuations in trade, the class standard can neither be high nor stable. The object of a policy of a living wage is to avoid the degradation of the whole class by throwing the burden on the less fortunate individuals, justifying the policy in the old way that it is expedient that one man should die for the people and that the whole nation perish not. The same notion is behind the plans, such as Mr. Charles Booth's, for the organization of dock labor. The rationale of these proposals is that the standard of the working classes is so far from being permanent enough to determine wages, that we must practically determine wages to prevent the standard from being set aside. Before the standard of comfort can act as the determinant of wages it must possess stability. Without stability, it is without the power to govern wages. Ricardo and the early economists were aware of the scientific necessity of having a fixed standard, and, for this reason, accepted the standard of a physiological minimum, arguing, in spite of their theoretical admissions, as if wages were down to the minimum. Below a physiological minimum wages cannot long

remain, and this was their point of absolute certainty.

During the first half-century after the beginnings of the factory system the outstanding features of industrial and social life were such as permitted the economist, with the assistance of his theoretical exceptions, to hold unquestioned this doctrine of natural wages. In England, wages were very low, although they probably were not quite down to the physiological minimum. Any divergence between actual wages and the cost of subsistence in this narrow sense was obscured by the fact that wages and the price of grain generally fluctuated together. The doctrine received strong corroboration from the paradox of poor relief and the apparent impossibility of remedying the defects of the poor laws. Allowances were made by the parish to the poor, and the condition of the poor remained the same. The net result of the parish allowances was to assist the employer by paying for him part of the wages which he would, under other conditions, have had to pay out of his own pocket. As the allowance from the parish increased, wages decreased; and the problem baffled the best minds of the community till they were forced to abolish the old system of poor relief altogether. This paradoxical phenomenon could be best explained by the subsistence theory of wages, and it is hard to see what other explanation can be offered. In the unprotected condition of the working classes in the early days of the factory system the subsistence theory of wages undoubtedly offers

a full explanation of the facts, and, wherever the same hopeless condition exists as existed in England at the beginning of this century, the subsistence theory will afford the best explanation of the determination of wages. In such a case it will be found to be as true as it was then, that every charitable allowance made in aid of wages will serve to admit of lower wages being paid. There is so much glib talk of the progress of civilization, and of the progress of the working classes, that we are apt to forget that there is a large section in every community for whom there has been no amelioration. Socially and industrially the "white slave" victim of the sweater is in the same position as those workers who were in receipt of poor law relief at the beginning of the century. The poor relief system has been immensely improved, and it is no longer to the employer of labor that the State grants aid from the rates; but the economic sense of the community has not yet been educated to see that a frequent effect of the half-crown dole to the poor struggling widow is to enable her to accept lower wages, and possibly to drive down the wages of others who receive no half-crowns. Against indiscriminate charity every one of us is prepared to take up his parable, but what of discriminating charity? Discrimination is good, but if the light that is in us be darkness!

In consequence of the rise of wages during the last half-century, the theory cannot now be maintained in its original somewhat naïve form. The wages of the majority of the working classes are considerably

above the physical minimum and, in consequence, much of the original argument and counter-argument has lost its force, although still often put forward. Naturally a good deal of evidence is of an *ex post facto* character. This evidence would be fully admissible, if care were first taken to show in virtue of what necessity the standard of comfort does determine wages; but this care has not always been taken. Wages are higher, therefore the standard must have been higher, is a type of the style of argument, and, in spite of Adam Smith's common-sense comment that "it is not because one man keeps a coach while his neighbor walks a-foot that the one is rich and the other poor; but because the one is rich he keeps a coach, and because the other is poor he walks a-foot," * a *propter hoc* is asserted

* *Wealth of Nations*, p. 31. The objections to the doctrine were set forth by Adam Smith almost before the doctrine had been clearly formulated. The objections are raised to the early form of the theory and have not the same force against the standard of comfort. The advocates no longer insist on the necessary correspondence between wages and prices, and with one exception Adam Smith's objections are variations of the contention that wages and prices vary independently of each other. The exception is that, in agriculture at least, summer wages are higher than winter wages, although the cost of living is less in summer than in winter. This objection cannot be met by admitting that wages do not respond to sudden changes in the cost of living, for the occasion, in this instance, is recurrent. If winter wages are lower than summer wages it is evident that the cost of living cannot be the sole determinant of wages. Winter wages are lower than summer wages in all trades that depend completely on the seasons, and may be lower in other trades on account of increased competition. Winter wages are generally lower in Canada than summer wages, and the working day is not always shorter. The drivers

while it is still doubtful whether even a *post hoc* is justified.

There are many industrial facts which bear out the contention of the theory and make, at least, a *prima facie* case, on its behalf. We have, in the first place, the well-established fact that wages are highest where the cost of living is highest. City wages are generally higher than country wages, and although this may be in part due to the greater efficiency of town labor, the correspondence between the cost of living and wages is too extensive and too marked to be merely accidental; and the correspondence appears not only when we compare town and country, but also when we compare different

on the street railway in Quebec City are paid seven dollars in summer and five dollars a week in winter, and in spite of the shorter working day the manager admitted that the hands "earned their money harder in winter than in summer." The cost of living in Canada on account of the climate must be at least one third higher in winter than in summer. *Canadian Labor Commission*, Quebec Evidence, p. 820; see also New Brunswick Evidence, p. 479, where it is stated that one dollar a day is paid in winter and a dollar and a quarter in summer.

"Q. Why are the wages lower in winter than they are in summer? A. Simply because we can get the men to work cheaper in the winter. . . .

"Q. Do they work the same amount of time? A. Yes.

"Q. Then the only reason is that the supply is greater than the demand? A. Yes; that is all. Men are glad to work for a dollar a day in winter, and prefer to work for us at that rate of wages than go to work in the woods."

The Canadian winter recurs with a certain regularity, but wages have not been adjusted to meet the increased cost of living, although the more provident of the working classes endeavor to adjust their expenditure.

sections of the country. Thus, in the United States, wages are higher in the towns than in the country, but they are also higher in the West than in the East. In the latter case, the higher cost of living seems to be related to the higher wages as cause to effect. The annual average earnings for the whole of the United States is $447.44, but the earnings in the Western States are far above the average, reaching in Wyoming $806, and in Colorado $685.* The following is a comparative statement of wages in town and country (165 towns of more than 20,000 inhabitants):

	MEN.	WOMEN.	CHILDREN.
Town average	$567	$391	$159
U. S. "	498	276	141
Country "	401	239	120

The figures in this table show also that, on the average, the wages of women are lower than the wages of men. The reasons why this is so have been abundantly discussed and a practical agreement has been reached, viz., that one cause why the wages of women are less is that they demand less, and that they demand less because they can live on less. It may be that the women of the upper classes insist on a higher standard of comfort than the men of that class do; but the women who earn wages do not belong to the upper classes and for many reasons

* Dr. Carroll Wright, from whose *Industrial Evolution of the United States*, p. 199, these figures are taken, says that the figures for Wyoming and Colorado are drawn from too narrow a basis to be quite representative.

have fewer requirements than the men of their class. In the first place, they do not require so much food to nourish them; and when wages are so low that the cost of the bare necessaries of food absorbs the larger part of the wages, women's wages may be at least one fourth lower than men's. The fact that they can live on less makes it possible for them to accept less and yet remain as efficient as they were, while male labor would be degraded. In the second place, a woman's standard includes more of those utilities which cannot be reduced to a money measure. The wages of female skilled labor and female unskilled labor do not differ so much as the wages of male skilled and male unskilled labor—the reason being that the female skilled trades are considered more genteel and are, therefore, over-crowded. A girl employed, say as a bookbinder, will rather submit to a reduction of wages than consent to mix with the lower social class of workers who are employed in making match boxes. Her social prejudices weaken the resistance she can offer to any attempt to reduce wages, and, consequently, we find that the wages of female workers never depart much from the average. The relatively high wages of the less skilled trades are due in part also to the higher real requirements of these workers. Women of the lower class who seek employment are, as a rule, entirely dependent on what they earn; and they must therefore earn as much as will cover the cost of living. The wages of female workers in a more skilled trade are used, to considerable extent, simply for dress and

pocket money—a part, sometimes the greater part, of their support being obtained gratuitously at home. Consequently, their standard of living has not sufficient stability to enable it to resist attempts to lower wages. In the third place, a woman's standard of subsistence is frequently only a personal standard. It is individual rather than social because she has only herself to support out of her wages. A man's standard of subsistence includes the support of his dependents. There are, it is true, a large number of women, widows with families of young children, and others who have to do more than merely support themselves; but these form only a minority of the working women while the men who have dependents are in the majority. Men are thus bound to offer effective resistance to any attempt to lower wages. Family affection is a strong force safeguarding the standard, and where it is operative helps to maintain wages at a higher level. It has the greatest effect in maintaining the standard when the family is almost entirely dependent on the wages of the breadwinner. Where part of the responsibility is removed from his shoulders, because the dependent members of the family contribute something to the family purse, his power of maintaining a high wage is proportionately less. The higher wages are not so much required and, consequently, are less likely to be obtained, because less from the breadwinner will serve to maintain the family standard of comfort. It is curious how closely family earnings approximate to an average. It is possibly becoming less

true that the family is the wage-earning unit; but where the head of the house is not the sole wage-earner, his wages are proportionately less. The annual earnings of the factory hands are lower than the annual earnings of the worker in the building trades which demand an approximately equivalent efficiency; and the explanation is, that of the dependents of the former, 1.25 per family are contributing to the family funds, while .25 only of the dependents of the latter are engaged in gainful occupations. The wife and some of the children of the factory hand accompany him to the factory, the wife of the carpenter or the bricklayer remains at home and the children continue at a school until they are older.*

These facts are capable of receiving a two-fold interpretation. The man who follows alternative trades may earn as little at the two as he could by efficient practice of either one; but the reason he offers for his conduct is that it is the only way to make a living; and the man who sends his wife to the mill, and takes his children away from school at an early age, will generally justify his action on the ground that this is the only way in which he can make both ends meet. That there is a causal effect between the standard of life which a man keeps before him and the wages paid to him is a fact beyond dispute; but which is the cause and which the effect is, by no means, always clear. The one standard probably acts and reacts on the other. And the

* See Gunton's *Wealth and Progress*, p. 171.

determination of the direction of the causal relation has not been rendered easier by the change which happier industrial conditions have brought in the theory. The operation of the new poor law destroyed the old economic paradox; and the growth of wealth and the rise of wages made it impossible to assert the subsistence theory in its early pessimistic form. The theoretical exceptions, which Ricardo had admitted, were brought out from the background and made much of. The expansion of English enterprise and industry made English economists aware of the varying conditions of labor in different countries and the wider experience seemed to suggest that the higher the standard of living the higher the wages. The centre of interest in economic questions was gradually changing from wealth to welfare, and the growth of democracy brought into prominence the practical problem of the best method of raising wages. The welfare of the greater part of the nation depended on the amount of the necessaries, comforts, and luxuries of life they could command with their wages, and the practical problem of raising wages was of more interest than the scientific problem of the law of wages. The first conclusion to which a comparison of international standards of life and comfort and international wages led, was, that since the higher the standard the higher the wages, the best method of raising wages was first to raise the standard. The standard of living or subsistence which, under Ricardo's assumption that wages must fall, had provided the

socialists with their most powerful criticisms of existing institutions, becomes in the hands of the most hopeful of modern labor advocates a lever for raising wages. If wages depend on the height of the standard, the practical conclusion is to endeavor to create new wants and new aspirations, in the confident hope that, when these are felt and adopted, wages will rise in proportion. The working classes thus seem to have their future in their own hands. It is no longer an iron law under which they live, but a law which their own voices have proclaimed, their own wishes can amend. This is the key-note of the policy of the ethico-socialist reformers of the day, who declare, if we may take Mr. Keir Hardie as their spokesman: "Wages are determined by the standard of living. If you improve the condition of the men you make a higher wage necessary."

The theory has, therefore, become more grateful to our modern sentiments, but, unfortunately, at the same time, in the process of transformation, has lost almost entirely what of scientific value it had. The truth of the theory, in its early form, depended on the fact that there was a limit below which wages could not fall and industry continue. Higher than this limit they might be temporarily: lower it was impossible for them to be. Ricardo was not inclined to lay stress on the causes which raised market wages above natural wages, and never dreamt of an application of the theory to prove that market wages also were directly determined by variations in the standard. This is really what the

modern advocates attempt to show regarding (Ricardo's) market wages. They still maintain that the standard of life determines the minimum below which wages cannot fall, but they reject altogether the assumption that wages tend to fall. Indeed, they seem to make the contrary assumption that wages have freedom to move only in one direction—upwards; and that each step of progress is irreversible. When, by raising the standard of life, a new minimum has been created, it is asserted that this new minimum has all the determining power on wages which the original physiological or industrial minimum could have. The raising of the standard of living is a practical method of raising wages only if the new minimum thus created has all the permanence and stability of the old. The new minimum is not based on any physical necessity, or, as yet, on any industrial necessity; but it must become at once so firmly entrenched behind the customs and habits of men that it can offer a very serious resistance to any attempt to reduce wages below the amount which would permit life according to the new standard. The new minimum must at once attach to itself all the determining power of the old; but it can do so only by creating habits and dispositions as strong and tenacious as the habits and dispositions which have been outgrown. The creation of new wants and aspirations, so strong that they have all the force of entrenched habits, although there is as yet no means of satisfying these wants and aspirations, is not to be accomplished in a week or a year. We

may, of course, fix wages, as Mr. Keir Hardie desires, by legislation, at the living wage of three pounds per week, and trust that the increased opportunities which the higher wages afford will enable the wage-earners to form a new habit of life in which new and higher wants and aspirations have a proper place; but that is legislation, not wages theory. On the contrary, it is an explicit contradiction of the subsistence theory, which requires that higher wages shall follow, and be caused by, the higher standard of living. With the advisability of such legislation we are not concerned, except in so far as the proposal illustrates the difficulties into which the more hopeful form of the subsistence theory leads us. We have to reconcile a doctrine which professes to show a method of raising wages with a theory which declares that there is a minimum below which wages cannot fall.

It is obvious that the reconciliation cannot be affected by supposing the universal and immediate adoption by the whole of the working classes of the proposed additions to the standard of living. Such a supposition would be contradicted both by history and by moral theory. Wholesale conversions do not usually involve any serious change of heart. The masses are never elevated at once, but by the old and familiar way of making giants and leaving it to them to elevate the mass. New wants and aspirations will at first be felt by but a few—too few to bring any serious influence to bear on the labor market. Consequently, if the creation of new wants

and aspirations is to be a practical method for raising wages, it must be supposed to effect the purpose in some indirect way: for directly and obviously the effect of new wants must at first be infinitesimal.

Mr. Gunton has endeavored to restore the subsistence theory to the rank of a scientific explanation of wages. It was rapidly becoming a mere pious opinion and it was necessary to restore the necessity and determining power which the theory had in its earliest stages, in some way consistent with the practical aim which had come to be associated with the theory. The evidence which can be given in favor of the theory is not conclusive till it has been demonstrated that the standard of life can determine wages: until this has been shown, the concomitant variation of wages and standards does not yield the desired conclusion. Mr. Gunton faces his difficulty boldly and declares that "the chief determining influence in the general rate of wages in any country, class, or industry is the standard of living of the most expensive families furnishing a necessary part of the supply of labor in that country, class, or industry": or, as he says, more briefly, later on the same page, "the minimum amount upon which the most expensive laborers will consent to live determines the general rate of wages in that class." * We may translate this into a newer terminology, and say that the wages of labor are determined by the marginal supply price of labor. Mr. Gunton, however, seems to have been misled by analogy.

* Gunton's *Wealth and Progress*, p. 89.

The marginal supply price of any commodity is the price at which the most expensive portion of the commodity can be sold. Mr. Gunton, applying this conception to labor, claims that the marginal laborer is the laborer with the highest standard of living. He may be so, but not necessarily. The marginal laborer is the laborer who is on the margin of not being employed; and whether he shall be employed or not depends on whether his employer thinks it worth while, considering the price of the commodities which he will be engaged in producing, to employ him. It is not a matter of indifference to an employer which laborer is the marginal laborer. In slack times, it is the inefficient workman who is the first to be dismissed and the efficient workman who is surest of his place. This is because the employer has formed his own personal estimate of what the man is worth—an estimate which is not final and may be modified by the attitude which the laborer chooses to take. An efficient workman who has rendered himself obnoxious by agitation and complaints has, from the employer's point of view, so much the less efficiency. In the main, however, it is an estimate of efficiency that determines who is the marginal laborer. As a general rule, the lower a man's standard of living the less his efficiency, and the higher his standard the better is he at his work. The laborer with a high standard of living is thus not the marginal laborer whose earnings determine the general rate of wages. The real marginal laborer is he who "adds to the total produce a net value

just equal to his own wages," * and is thus, under the actual conditions of industry, the least efficient workman employed. Accordingly because the least efficient workman is also, generally, the workman with the lowest standard of living, if the standard of living of the most expensive laborer is to be taken as the determinant of wages, the standard must be that of the least efficient, not of the most efficient. Mr. Gunton adduces in support of his contention the fact the native workman in America, who has the higher American standard of living, can barely do as much as make both ends meet; while the immigrants, with a lower standard, can, on the same wages, save money and accumulate property. "What the most expensive portion of a given class must receive the balance may and will receive." † In this way the law is given determining power and to the great body of labor becomes beneficent. All those whose standard falls short of the highest can, according to their ideas, live on their wages in comparative affluence, while only a select few feel the pinch of circumstances. "There is nothing," he continues,‡ "in the nature of this law to prevent the rate of wages from rising to five thousand dollars as well as to five hundred dollars a year." And the fact that there is nothing in the law to prevent or to show that such a rise under any known conditions is impossible, shows the law to be comparatively meaning-

* Marshall, *Principles of Economics*, p. 567.

† Gunton's *Wealth and Progress* p. 89. ‡ *Ibid.*, p. 90.

less. The total national dividend out of which the expenses not of the working classes only, but of the whole of society must be met is not sufficient, divided share and share alike, to give such an average wage. No doubt from an increased product, and out of a larger national dividend, a larger absolute, if not also a larger relative share, may go to labor; and a higher standard of living among the working classes will no doubt result in an increase of efficiency and indirectly, through consumption, make it possible to pay high wages; but the increase arising in this way will not be very great. The increase of the product of industry which has taken place within the last forty years has been due, perhaps, more to the increased use of capital in manufacturing than to an increase in the efficiency of labor; and there is no reason whatever for supposing that there will be in the future a greater proportional increase of efficiency than there has been in the past. At any rate a rise of the average wage to five thousand dollars a year can be rendered possible only by an enormous increase of efficiency: directly, the standard of living alone, however powerful as a determinant of wages, is quite incapable of raising average wages to even the fifth of that sum. The optimism of this practical form of the theory is so extreme that it, in effect, denies that there is any labor question at all. The problems of distribution arise only because the national dividend is limited in amount. Mr. Gunton not only ignores the existence of other claimants for a

share of the dividend, but assumes that the dividend itself is large enough to make it possible for the working classes to raise their demands indefinitely and have them met. It is true that if the efficiency of industry is increased by a rise in the standard of living a larger average wage may be paid; but, in thus arguing, we have abandoned the original theory of wages and adopted in its place a modified form of the later theory which makes the productivity of labor the measure of wages.

A more serious defect in Mr. Gunton's theory is that, in order to obtain that permanence in the standard to make it the final determinant of wages, he entirely ignores the demand for labor. He writes as if he had adopted without qualification the trade-union and working-class fallacy of the Lump of Work, which is, that there is a certain amount of work to be done which will be done no matter what the cost. Demand, as Mill pointed out, though he forgot his own distinction when he wrote on wages, is always relation to price; and if labor has a supply price it has also a demand price. The existence of a demand price must very seriously affect the ability of the working classes to determine wages according to their wishes. If the demand were fixed and invariable, the permanence of the standard of life could be assumed and the higher standard would, as Mr. Gunton claims, determine the wages for all. In an open market all labor of the same degree of efficiency will be paid at the one rate. If the demand is sufficient, and will remain

under all conditions sufficient to carry off the supply, the rate of wages will be determined by the supply price of the most expensive portion. But what happens if the demand is not fixed and, under given conditions, is not sufficient to carry off all the supply? The first effect is a trial of strength between the standard and the tendency of wages to fall. The laborers with the highest standard, according to Mr. Gunton, being the marginal laborers, will be the first to go. If they are willing to accept a lower wage which, *ex hypothesi*, is too low to cover their expenses, they have the same chance of employment as the others. If they obstinately hold by their standard they may find themselves out of work; and, though it is labor that is bought and sold, the laborer must live by the price of labor. There is a great strength in the position of any bargainer who stands out for a price; and, other things being equal, he is likely to obtain the price he desires. But in the case of labor other things are not equal; and the only force on whose operation the laborer can depend to make good his demand is the difficulty the buyer of labor has in finding a substitute which will serve his purpose equally well. No man can claim to be indispensable, and the inconvenience there is in finding a substitute for an unwilling workman is never very great. The marginal laborer must, therefore, when the demand for labor falls off, either lower his demands or be content to stand aside; for, by Mr. Gunton's hypothesis, the marginal laborers are few in number, and noth-

ing has been said about efficiency. If the standard for which a struggle is being made has been adopted by thousands, and if each laborer of the thousands is resolutely steadfast in demanding a wage which will enable him to live up to the standard, a proposal to reduce wages may be successfully resisted, because the trouble and inconvenience of finding substitutes for so many is very great. This is probably one reason why it has been possible to maintain the American standard of living in spite of the competition of low-class immigrant labor.*

The solution of the difficulty, however, is not far to seek. The marginal laborer is not necessarily the laborer with the highest standard of living. Experience, on the contrary, shows that the marginal laborer is almost invariably the laborer with a low standard. The employer takes into account when he buys labor the efficiency of what he buys; and thus there is a demand price as well as a supply price. The standard of living is therefore not the sole determinant of wages. In the absence of a fixed demand for labor, the standard of the laborer is not stable and permanent enough to make it impossible for wages to fall below what will admit of this standard. The force on which the laborer must rely to obtain what he demands is not the strength of his desires, his wants, or his habits, but the inevitable inconvenience to the employer in replacing him. If the standard has been widely adopted, and is strenuously maintained, the incon-

* See the chapter on the Migration of Labor.

venience may be so great as to counterbalance the possible gain to the employer from a deduction of wages. The standard of living is thus not a minimum below which wages cannot in any event fall, but a conception which each laborer has formed of his own merits or of what his labor is worth and by which he is prepared to stand. If need be he will accept less, as a merchant may sell his goods for less than cost to avoid a greater loss; but the laborer will be as anxious as the merchant to avoid this contingency. He can accept less temporarily, because he can support physical life on less; but the more firmly he is attached to his standard the greater the resistance he will oppose to any attempt to force wages below it. He is not invariably successful in his opposition, as the strike returns show. He is apparently, however, almost as often successful as unsuccessful. The peculiar position of the laborer probably renders it more difficult for him than for other vendors to enforce his estimate of what he sells. In many cases the seller of a commodity may withdraw part of the supply, as the Dutch planters destroyed the spices; but the laborer has not the same freedom. It is generally asserted that every laborer must work and must work immediately; and that consequently he is dependent for enforcing his estimate of what he sells on the effect which the prospect of inconvenience has on the mind of his employer. How far the assertion is correct we shall inquire in next chapter; for this is one of the cardinal propositions of the Wages-Fund Theory.

CHAPTER II.

THE WAGES-FUND THEORY.

IT is hardly possible to draw a rigid line of distinction between the Subsistence Theory and the Wages-Fund Theory; for the two theories are not mutually exclusive, and indeed, sometimes, are held by the same writer. The distinction is to a large extent a matter of the relative emphasis laid by the particular writer on the separate terms of Ricardo's contrast between market and natural wages. Natural wages, he had described as being such as would maintain the race of laborers, and such as would be paid in a stationary society. Market wages, on the other hand, may, in an improving society, for an indefinite period, be constantly above the natural rate; and society during the first half of this century was distinctly improving.* Ricardo had developed, with proper emphasis and with the proper theoretical exceptions, the theory of wages which explained the industrial situation down to his own period; and it

* The improvement was not continuous, nor was it so marked in some departments as in others, but, nevertheless, the characteristic of the half-century was progress.

was to be expected that when industrial conditions changed for the better the theory of wages would also become less pessimistic. After the close of the war period it was seen that wealth was increasing faster than population; and Ricardo's theoretical case was consequently everywhere actually realized. Market wages, therefore, rather than natural wages was the subject of discussion and investigation, and the theory of wages which was gradually formulated by economists between Ricardo and J. S. Mill was explicitly a theory of market wages. The doctrine of natural wages was not rejected. It still formed a gloomy background. Natural wages were the minimum to which the incontinence of the working classes might reduce wages; but it was not considered necessary to discuss the minimum in the course of the treatment of market wages, any more than a publicist would consider it necessary to interpolate a reference to physical force in a treatise on representative government. An exaggerated Malthusianism made it possible to maintain the older theory while discussing the new.

It might, in a sense, have been possible even without the assistance of the Malthusian doctrine to maintain both theories; for each attacks a different part of the Wages Question. Wages may be considered from two points of view—as the share of the product or income of society which is ultimately allotted to labor, or as the amount of the commodities ready for consumption which the individual laborer is able to obtain. The problems of wages, and

wages per head, are quite distinct. The first involves a discussion of general wages which may result in a discussion of average wages, and the second a discussion and description of the causes why A's wages are such and such, and more or less than B's. The Wages-Fund Theory discusses the problem of general wages fully, but adds little or nothing to the discussion of particular wages. It is a theory regarding the source, ultimate or derivative, from which wages are paid, rather than a theory explaining the actual differences of wages received. The Wages-Fund Theorists do incidentally, and sometimes in lengthy chapters, discuss the causes of the difference of wages; but the treatment they give to the problem is avowedly supplementary. The subsistence theory, on the other hand, is, in the main, a theory of particular wages. While the minimum was interpreted strictly as a physical minimum, the early theory may be regarded as dealing both with particular and with general wages. The same cause which determined general wages also determined —accidents and theoretical exceptions apart—the wages which each man received. With every change in the direction of the recognition of the standard of life as elastic, the subsistence theory became more and more a theory of particular wages; and the general problem was neglected. The problem of the determination of the particular wages is undoubtedly the more interesting of the two, but it is barren of scientific results. The causes of the differences of wages are so various that an investiga-

tion of them will not readily yield any law of more than temporary and local significance. The diversion of the attention of economists from particular to general wages, though it made political economy abstract and "dismal," was a real gain to economic theory. When the growing prosperity of the nation caused the abandonment of the notion that the standard of life was fixed and permanent, the scientific value of the early theory went out of it; and it became, as was said above, merely a theory of particular wages. The Wages-Fund Theory took up the scientific problem and devoted itself mainly to a discussion of the source from which wages are paid and of the laws which govern the amount of the wages fund. It makes no contribution which is worth serious consideration to the discussion of particular wages. It gives us merely an arithmetical average which has no practical bearing, and a general enunciation that particular wages can only rise or fall at the expense of other wages. Mill, indeed, does give a supplementary chapter (in which he follows Adam Smith very closely) to a discussion of the causes of differences in wages, but the causes he finds at work do not find their ultimate explanation in the Wages-Fund Theory. The problem of general wages is the only one of scientific importance and it is highly desirable that the two problems should be kept distinct; but it is not desirable that the solutions of the separate problems should have no connection the one with the other. The particular causes of the differences in wages should be shown to

be cases under the law of general wages and not treated as if they were independent laws of wages. The Wages-Fund Theory has no place for these particular laws; and it treats them as if they were supplementary laws brought in to explain what the Wages-Fund Theory cannot be made to explain. The Wages-Fund Theory was undoubtedly thought to explain particular wages. It was constantly, in its popular version (or perversion), used as an argument against trade-unions, for instance, and the possible influence of trade-unions on particular wages; and Mill himself, when he proposes to discuss facts in apparent contradiction with the theory, virtually makes the claim that the general law of wages does include and explain the particular causes of the actual variations in wages. But his explanations are either unconvincing, if consistent with his general theory, or inconsistent with the theory if convincing.

The Subsistence Theory and the Wages-Fund Theory are, however, as we saw, not mutually exclusive, and the latter theory was developed too closely under the influence of the Malthusian doctrine ever to be placed in opposition to the earlier theory. Ricardo had defined capital as "that part of the wealth of a country which is employed in production, and consists of food, clothing, tools, raw material, machinery, etc., necessary to give effect to labor"*; and, since the most obvious way in which capital is "necessary to give effect to labor"

* Ricardo, *Principles*, p. 72.

lies in supplying the laborer with the means of living during the extended process of production, Ricardo, to whose analytic mind the less essential was the practically non-existent, naturally came to resolve all capital into food. Thence it was but a step, and, under the influence of Malthus, an easy step, to the position that wages depended at any moment on the proportion of the amount of food or capital to the number of laborers in the community; and this is the essential doctrine of the Wages-Fund Theory. The progress of the working classes had taken away from the subsistence theory that element of necessity and permanence which it appeared to possess in the notion of a physical minimum; and Ricardo's definition and use of the term capital seemed to give back again the element of necessity which had been lost. The older form of the theory had relied on the absoluteness of the principle of population; but, with admission of a moral check, no permanent obstacle to an indefinite rise of wages seemed to remain. But, when Ricardo accepted unquestioned the assumption made by Adam Smith that wages were paid out of capital, and practically limited capital to the food necessary to give effect to labor, a new and inexorable limit and obstacle could be placed to the rise of wages. The intention of the capitalist, who had the right to do what he liked with his own, rather than the continence of the working classes, became the real determining force. Thus again the law of wages was made to depend on a force strong enough to

bring it into operation as a determinant of wages; and the discarded physical minimum could be relegated to the background as a theoretical minimum. The intention of the capitalist laid down a practical and a necessary maximum beyond which wages could not rise. The Wages-Fund Theory which was thus established is the second scientific theory; because it recognizes that a law of wages must be more than the pious opinion of an economist.

The Wages-Fund Theory is a theory of supply and demand, and naturally discusses the supply of labor, and the demand for labor, and the force which brings about an equilibrium between, or equation of supply and demand. The theory may be conveniently formulated in three propositions dealing with these three subjects.

The first proposition dealing with the supply of labor may be thus stated: There is a determinate number of laborers, at any given time, who must work independently of the rate of wages, *i. e.*, whether the rate be high or low. Taken without the limitations generally stated by the Theorists, there is a very large measure of truth in this proposition. The compulsion of necessity drives men to labor. "Many workmen could not subsist a week, few could subsist a month, and scarce any a year, without employment*;" and the same necessity lies upon autonomous laborers as upon hired laborers, although the degree of compulsion to immediate work may not be so great. The Wages-Fund

* *Wealth of Nations*, p. 28.

Theory, however, qualifies the importance of this proposition by expressly excluding from consideration all but those who work for hire. The determinate number of those who must work includes those only who work for hire. Autonomous producers and those who render immediate services are not included in the number. Adam Smith had expressly excluded the latter class, and Ricardo followed his example, probably without reflecting on the extent of the class excluded. The Wages-Fund Theorists, in spite of their probably wider historical knowledge, followed Ricardo. The essence of the argument they based on this proposition is that, since the number of laborers obviously cannot be immediately increased, and, owing to the compulsion which lies on all laborers to work to live, is not subject to diminution, the supply of labor may, therefore, at any given time, be taken as fixed. But the boundaries between those classes cannot be regarded as permanently fixed. Under normal conditions, when demand and supply are adjusted to each other in each of the three classes, there may be little irregular transfer; but when industry fluctuates, the transfer from the one class to the other may be great. There is no inherent difficulty in the way of this transfer as there is in the case of the mobility of labor between trades. A man may still work at his trade whether he works at the bidding of another or on his own account. A shoemaker is still a shoemaker whether he works in his own stall or in an employer's workshop. Peasant proprietors are not

the only autonomous producers. There are still large numbers of jobbing artisans, especially in the smaller towns; and many of these are found now working for themselves, and now at the bidding of another.* When wages are high they may enter the class of hired laborers; when wages are low, they may work for their own behoof; or, *vice versa*, according to the disposition and temperament of the individual. The class of laborers, moreover, who render immediate services, is not, in the present day, absolutely distinct from the class of hired laborers. In Adam Smith's day the feudal spirit was not quite extinct; and every nobleman had a large number of retainers to support his dignity. These retainers were, in every sense, unproductive, and could not on occasion seek employment as hired laborers. Servants, however, in the present day are generally engaged for economic purposes; and many of them are quite capable of finding employment as hired laborers. Instead of employing a gardener or a coachman by the year, one may hire him by the day or the week; and the gardener may employ the rest of his time working for hire in a nursery, or market garden, or on his own behoof; and the gardener is the type of a comparatively large class. The wages of domestic servants have risen, in consequence of the attraction of female labor to the factories; while

* The development of industry on a large scale has been accompanied by an increasing transfer of laborers from the autonomous to the hired class: but this movement has been so regular and so long continued that it may be considered normal.

depression of trade drives many from the industrial to the service class at least for the time being. The prolonged business depression in the United States following the panic of 1893 has diverted a large portion of the new supplies of labor from business to the professions; and in one profession at least—university teachers—salaries are falling in consequence. The prospect of certainty has, for the time being, more than offset the attractions of the chances of success.

Thus, though it were true that the number of those who must work is determinate, it does not follow that the number of those who must work for hire is determinate. But the number of those who seem committed to labor is not altogether determinate. There seems to be a margin of labor (not necessarily a large margin) which works or not according to the inducement. We do not refer to the out-of-work members of a trade-union, for the Theorist will rightly point out that the number of laborers is only nominally smaller, if those who work support those who do not work. But if, and in so far as, those who are out of work are supported, not by the trade-union funds but by public or private charity, the burden of their support is borne by the community at large, and probably mainly by those members of the community who are not included within the class of hired laborers. The numbers of men in receipt of poor relief vary considerably; and these fluctuations show that the first proposition of the Wages-Fund Theory requires some qualification.

The Theory, however, claims to be primarily a theory of the demand for labor. "The causes governing the supply of labor may be taken as sufficiently elucidated. Our business is with the causes governing demand—governing the amount of wealth applied to the direct purchase of labor, or, as we may equally well express it, governing the Wages-Fund." * The causes governing the supply of labor are set forth in the doctrine of population and, on the whole, we are asked to consider the supply of labor which must work as given independently of the demand.

The supply of labor is regarded as determinate, because laborers must work and cannot stand out for their price; but it does not necessarily follow that, because all laborers must work to live, their objection to work for lower wages than they have been accustomed to, can have no effect on the price of labor. This inference, however, is drawn by all the exponents of the theory. Mill, indeed, does recognize briefly, in passing, in his chapter on profits, that the advance of wages is regulated by the productive power of labor. The motive which the capitalist has in advancing wages is not philanthropic but economic; and his advances are governed by the anticipated surplus of the product over the advances he must make to labor. Profit, therefore, depends on the productiveness of labor; and the laborer is therefore not a merely passive factor in the wages-bargain. The laborer must work, but it is the em-

* Cairnes, *Leading Principles*, p. 161.

ployer's interest that he should work. Therefore the objection to a large number of laborers to submit to a reduction of wages has an undoubted influence on the employer's intentions. To reduce wages in spite of the objections of the laborers is indeed always possible; but it is not always profitable; and an employer may, owing to these objections, continue to pay higher wages than he might otherwise succeed in forcing his employees to accept. The reason is that, as Mill himself has pointed out, the mental and moral qualities of the laborer affect the productiveness of his labor; and hope and contentment are two of the most important of these qualities. "The wages of labor are the encouragement of industry, which like every other human quality improves in proportion to the encouragement it receives. . . . When wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious than when they are low." * To ignore his objections may make a workman discontented, and a discontented workman is seldom as efficient as he might be. But the fact of the ultimate regulation of wages by the surplus which the employer hopes to realize was not consistently recognized either by Mill or by any other Theorist. The Wages-Fund Theory is, therefore, entirely a theory of the demand for labor—the supply being regarded as fixed and the laborer merely as the recipient of wages.

* *Wealth of Nations*, p. 34. For a further discussion of this question see the chapter on Trade-Unionism.

The first proposition has not been seriously, or intelligently, called in question, but the second has provoked endless discussion and criticism. It embodies the central doctrine of the Theory, and may be stated thus: In any country, at any given time, there is a determinate amount of capital unconditionally destined to the payment of labor; and this is called, for shortness, the Wages Fund.

The basis of this proposition is the assumption made by Adam Smith, and adopted, unquestioned, from him by all economists for a hundred years, that wages are paid out of capital. This is, perhaps, not the best way of expressing the important phenomenon to which attention is called, that the hired laborer receives not an immediate but a derivative share of the product of industry. Adam Smith evidently did not think that the assumption required either explanation or justification; and, although both he and the chief of his successors pointed out the reason, in the organization of industry, why this should be so, they did not develop the reason so far as to show conclusively the necessity of the assumption. The process of production is spread over a long period of time and the main function of capital is to permit this extended process. We need not attempt to determine whether or not it is a law, or merely an observed fact of modern industry, that the progress of industry should mean the expansion of the period between the time when the first steps of production are taken and the time when the commodity is finally in the hands of the consumer.

Ever since economists combined to reject the physiocratic distinction between productive and unproductive labor, more or less adequate recognition has been given, in theory, to the fact of long-period production. It does not require now even an effort of the economic imagination to realize how little of the labor of to-day has been engaged in producing what will be ready for use to-morrow. A commodity is not finally completed until the retailer has put into it the utility of being where it is wanted, and it is in the hands of the consumer. Only a comparatively small number of laborers are employed in giving the final touches to a commodity, and usually the completed product of one industry is the raw material of another. Whether it takes one year or five years or ten years to bring a commodity from its earliest stages to the hands of the consumer is not a matter of much moment: the essential point is that, in every case, it does take a long time. The length of the period is, in part, concealed from us by the fact that under no circumstances is a commodity brought thus far by one worker or group of workers alone. Each worker, or group of workers, disposes of the product to the workers of the next stage; and so far as they are concerned, the process of production is complete. But the final product is the product of successive stages; although, for the sake of brevity (ignoring the subsequent services of the transporter, the merchant, and the retailer), we generally speak of the last producer in the series as the maker of the commodities.

The importance of this fact of the theory of wages is that, at any time, only a small proportion of the agents of industry can be engaged in turning out commodities which are immediately consumable. Since real wages consists of commodities ready for immediate consumption, wages must be paid out of the stock of consumable commodities and paid by those who own the stock. The great majority of wage-earners, then, cannot be paid out of the immediate product of their own labor because the goods they are engaged in advancing one stage towards completion are not in a condition to satisfy immediately any human want whatsoever. The real wages they receive must come out of the stock of completed commodities which has been called the national dividend. There is no other source from which wages can be paid.

Whether wages are paid out of capital is the question whether goods ready for the consumer are or are not capital. Ricardo had defined capital in such a way as practically to limit it to the food necessary to give effect to labor; and, with or without a conscious ellipsis, his definition was adopted by most economists. Food is the typical consumption commodity, and wages are therefore paid out of capital. The almost exclusive attention of economists down to the time of Mill to the problems of production had made it possible for them to regard wages simply as a means to further production. Mill did declare that all wealth is consumed; but the emphasis he laid on this proposition did not enable him always

and consistently to recognize that consumption is an end in itself. Wages, *i. e.*, real wages, are not paid for the purpose of enabling production to be carried on; and the laborer never regards his wages in the light of an investment. Wages are an end; and it is of no consequence immediately to the wage-earner that they are also a starting-point in a new economic cycle. It does not seem desirable, therefore, to include food and other consumable commodities within the content of the term capital. Capital is more appropriately confined to what Professor Taussig has called "inchoate" wealth or goods on the way towards completion for the satisfaction of human wants. Wages, and all the other distributed shares, are paid out of the income rather than out of the capital of the community; although it is to be kept in mind that the income of the community consists in that portion of the inchoate wealth which has just been advanced to the final stage. The wages of present labor will not, in general, be paid out of the product of present labor. The reward of labor is paid out of the product of past labor; and the labor expended to-day may serve to remunerate labor a year or five years hence. The present reward of present labor consists of consumption goods which have been preparing for use during many years.

The source of wages is the stock or the fund of such consumption goods; and those who are in possession of this stock are the real dispensers of wages. The laborer is certainly not the owner; and

his employer seldom is. The present necessities of the laborer compel him to exchange the value of his share in a certain amount of capital or inchoate wealth for commodities which will satisfy his immediate wants. If his necessities would allow him to wait until the wealth he has helped to create matures into, or is carried out into, commodities in a condition to satisfy human wants, he might be able to exchange his share in the product for a larger amount of commodities that will satisfy his individual wants. But they will not allow him to wait. So he discounts the value of his present contribution to the income of five or ten years hence and receives in return actually consumable commodities which it may be five or ten years since he had helped to advance one stage towards consumption.

The employer, when he disposes of the output of his factory, is in practically the same position: he, too, discounts the value of his contribution to future income and he does so under the pressure of the same necessity of realizing now on what would accrue to him in the future. His necessity is not so immediate; nor does he always feel compelled to make a bargain for the output with someone, before he begins to produce. The laborer not only sells his share of the ultimate product at one stage earlier than the employer sells his, but he is not in a position to take any risks. He cannot even wait, so great and so immediate are his necessities, until he has made his contribution before he disposes of its result. The employer, as a rule, can wait and the

buyer of the output of the employer's industry takes less risk and can afford to give better terms. The employer from this point of view is simply a middleman or, if you like, a broker or private banker who discounts values which are too uncertain for the regular banker to touch. He takes the extra risk of the laborer's contribution not being what it is expected to be, and consequently he must charge a proportionately higher rate of discount. Owing to the lengthened process of production the laborer in order to live is compelled to have recourse to his broker; and when the laborer is not economically subject to the employer he is, under his actual conditions, the gainer by the transaction. He is not in a position to take risks, and therefore gains by obtaining a sum down instead of the somewhat doubtful value which he might obtain after waiting. Theoretically, the laborer, who is not paid till the end of the season or till the product is marketed, ought to be in a better position than the man who is compelled to make his employer take the risks; but practically he is not; for, in such cases, the laborer, being, as a rule, economically subject to his employer, is compelled, like a man in his necessities having recourse to a usurer, to accept whatever terms the employer may make.

Whether wages are paid out of capital or not is largely a question of the definition of capital; and, in the sense in which we have taken that term, they are not paid out of capital. On the contrary, if a paradoxical use of language may be permitted

for a moment, the laborer, instead of being supported out of capital, parts with capital ("inchoate wealth"), actual or to be created, in order to obtain an income of commodities in a form ready to satisfy human wants. His wages are paid out of the income of society. This fact is concealed from us by the intervention of money payments. The laborer receives a money wage directly at the hand of his employer and, although the distinction between money wages and real wages is always made, it is not always adhered to. Because the laborer receives his money wages from his immediate employer, it is generally taken for granted that he is paid out of the funds of his employer; and if we confine our attention to money wages—a matter of little importance for the theory of wages—the fact is as represented. From an individual point of view, the payment made by an employer to his employees is a final transaction, but, from a social point of view, it is only a step towards the final transaction. In the payment of real wages the employer may be only an intermediary or agent: the real payer of wages is the owner of the stock of consumption goods.

The proposition that wages are paid out of capital is, perhaps, not the best way of expressing the dependence of the laborer on his employer; and, in consequence of the inadequate expression, in the Wages-Fund Theory this dependence is somewhat exaggerated. Mill, who has given us the standard exposition of the theory, defines capital by reference

to the intentions of the owner of capital; and this definition, combined with the natural habit of regarding the payment of money wages as a final transaction, leads to the characteristic and central doctrine of the Wages-Fund Theory, that the money resources which the employer has set aside for the payment of wages is a determinate amount. With the version of the theory that finds in it only a statement of the wages problem we need not trouble. We can find our own statement of the problem. The Wages-Fund Theory stands or falls according to the answer to the question whether the wages fund is predeterminate and fixed. That the fund is determinate *ex post facto* needs no long demonstration: so the popular and unmodified version of the theory is the only version we need consider.

According to this version, an employer, looking to the resources at his command and to the nature of the productive process in which he is engaged, makes up his mind that so much and no more it will be profitable for him to spend in hiring labor—in much the same way as a householder, looking to the size of his income and the domestic necessities of his household, decides whether to engage one or two or three domestic servants. Whatever the hesitation when the critical question is propounded, there can be no doubt that it was generally assumed that not only no more but no less than this predetermined amount would or could be spent in hiring labor. This definite amount was earmarked for a definite purpose; and—an important feature often

overlooked by the critics of the Theory—since the regulation of industry was in the hands of the capitalist, no change could occur which might induce him to alter his intention. Under changed conditions his intentions would be different; but, in the normal course of industry, his intentions determined, and were not determined by, the condition of industry. It was an easy matter for critics who accepted the individual limited standpoint of the Wages-Fund Theory and treated only money wages, to demonstrate, as soon as suspicion of the validity of the Theory had been aroused, that the wages fund was neither predetermined nor fixed, that employers did not pay wages from a royal desire to carry out their intentions, but from the more sordid desire of securing for themselves the surplus of the product over the advances made, that although wages might be advanced temporarily by the employer, the advances were measured by the anticipated price to be realized for the product, and, finally, that the important factor to be considered was not the intention of the capitalist, but the efficiency of the laborer. On all of these points the critics of the Theory had an easy but a barren victory. They had an easy victory, because they could show that the capitalist never acted as he did out of sheer indifference, or to exhibit his strength, but from an economic motive. They had a barren victory, because they confined their attention mainly to money wages—as no doubt they felt justified in doing, in criticising a theory which confined itself, in the main, to money wages.

The criticism was perfect, but its results were purely negative. It is easy to show that the money which an employer is prepared to spend in wages is neither fixed nor predetermined. Theorists neglected altogether, as Mr. McLeod, among others, has pointed out, the influence of credit in swelling the resources of the employer; and when this influence is taken into account the Wages Fund cannot be regarded as fixed. It is not predetermined because industry is not stationary, and not governed exclusively by the intentions of the employers. Industry is constantly fluctuating and since the employer never acts *qua* employer without an adequate economic motive the intentions of the employer will change with every change in the prospects of industry.

But all this valid criticism is beside the question, which is one of real wages. The source from which wages must be paid is the stock of consumable commodities, which is indeed continuously being exhausted as the commodities are used for the satisfaction of human wants, but also continually replenished from the volume of commodities nearing completion. This stock is, none the less, for any given period a fairly definite amount. Production is spread over a long period, and no demand, however urgent, can indefinitely increase the amount of all commodities. The process of production may, under pressure of increased demand and higher prices, be somewhat shortened; and since many of the agents and much of the material of production can be used in more directions than one, particular

kinds of commodities may be produced in vastly increased amounts; yet the total effect on the real income of society, *i. e.*, on the stock of consumption goods, is not very great. The income of society, at any given moment, may be taken as an approximately fixed amount; and, interpreted in this sense, the Wages Fund may be regarded as a proportion of a fixed amount. It is true that on this account the position of the wage-earners is no worse than the position of the receivers of rent and interest. These, too, are paid out of a fixed amount.

The original Wages-Fund Theory asserted that the amount of wealth which goes to labor is determined by the employer; and even in the modified interpretation of the Wages Fund the statement remains substantially true, if we extend the application of the term capitalist employer. The stock of consumable commodities belongs absolutely to its owners, whoever they may be. All claims on it by those engaged in its production have been brought out. The laborer has long since bartered his share of the final and completed product for necessaries of life, it may be, before the process of production was nearing completion. The employer has sold out his rights that he might meet his obligations and continue his business; and the product belongs finally and completely to its owner. The class of owners need not necessarily be, as it is under modern industrial conditions, limited in number; but whether the class be large or small, the completed product belongs to it to do what it likes with its own, to

consume it, to hoard it, or to waste it. If, however, any member of the class choose to postpone the use of part of the share of this income of consumable commodities which has, in the economic course, been assigned to him, he leaves so much more of the stock for other owners or non-owners to use. The end of the process has been reached, and consumable goods must be consumed or wasted. If he does not consume these commodities himself, he leaves them for some other to consume; and if, from any cause, he prefers to postpone his consumption, there are others ready and willing to step into his place. No man, however, if we omit the case of charity, is willing to postpone immediate satisfaction, except in return for a proportionally greater satisfaction in the future; and the only way in which a man can postpone his immediate satisfaction, and secure a greater amount of satisfaction in the future, is by exchanging a certain amount of completed wealth or income for an amount of inchoate wealth or capital which, when carried to completion, will repay him for the sacrifice involved in the postponement of present satisfaction. If he is so minded he will always, owing to the conditions of production, find many willing to exchange inchoate, or less than inchoate, wealth for present income of consumption goods. Now, although in the aggregate the savings of the working classes seem enormous, these, yet, form a very small fraction of the total savings of society, and, under the present conditions of unequal distribution of wealth in society, we must look for

saving only from those whose object, in common parlance, is to make money. The members of the employing class alone, taking this term in a wide sense to include bankers and investors, are able and willing, to any appreciable extent, to postpone enjoyment and buy capital or inchoate wealth with income. The laborers, on the other hand, as we saw, are willing, indeed, are forced by the necessities of life, to exchange capital for income, because otherwise they would be unable to command the commodities which will satisfy their present wants. The laborer has long ago parted with his share of present income under pressure of necessity, and he must now purchase a share in the present income by parting with his claims on a yet distant product. Consequently the price which he is likely to receive for his claims is the amount of their consumption of the actually finished commodities which the owners are willing to postpone. The measure of the Wages Fund is thus set by the degree of the willingness of the owners of consumable commodities to postpone their consumption. This fact is not clearly enunciated in the proposition of the Theory that the intention of the capitalist determines the Wages Fund; because, owing to the present unequal distribution of wealth and those facts of life set forth in the law of diminishing utility, the primary owners of the income of society could not possibly consume the whole of it. The greater part of this income consists of commodities which can satisfy only the elementary physical wants; and, since the present

owners are few in number, they must postpone part of their consumption and would do so whether they received a "reward for their abstinence" or not. The socialists have poked rather laborious fun at the author of this famous phrase and have justly pointed out that, in the present distribution of wealth, the postponement of present consumption is a necessity, not a virtue. The capitalist, or, as we had better call him, the final owner, is almost as much bound to buy future income as the laborer is to buy present income. Still, since the laborer has no primary share in this present income, the amount of it which laborers can receive as wages is strictly determined by the amount of present consumption that the owners, under whatever conditions, are willing to postpone.

We are now in a position to discuss the bearing of consumption on the wages question. It is often asserted, in defiance of Mill and the classical economists, that a demand for commodities is a demand for labor, and a practical corollary is sometimes added that the payment of high wages to the working classes results in the general prosperity of industry. In the main the answer of the classical economists was correct; although they did not, perhaps, develop all that was implied in their answer, that a demand for commodities could only change the direction of industry, because demand and supply are but the two sides of the one shield. A change of the direction of industry, however, has more than the merely formal consequences which

alone they seemed to recognize. An increased demand for the commodities consumed by the working classes, in consequence of higher wages being paid, will change the direction of industry to more profitable channels. A certain portion of the increment may be spent on working-class luxuries of food and drink, but the greater part will be wisely expended, especially if the rise in wages is of some duration. The result will be, since the working classes form the great majority of the nation, and their wages allow them to satisfy only the elementary and universal wants, that production, owing to the increased demand, will be conducted on a more economical basis. The limit to the division of labor is the area and extent of the market; and where fashion and caprice rule, division of labor cannot be carried very far. A working-class demand is not subject to fashion and caprice, individual preferences being offset, owing to the area of the market; and, consequently, new and more economical processes may be commenced in the assurance of a steady market. Therefore, when a change in the demand arises from higher wages paid to the working classes, there may be a great gain to society as a whole. Except in this case, however, a demand for commodities is not a demand for labor. A demand for commodities, taking commodities in the sense of goods ready for consumption, implies a large consumption of real income by its immediate owners; and, as we have seen, the amount which is paid in wages depends on the extent to which the final owners of the real in-

come of society are prepared to postpone consumption. If the increased demand of a section of the owners of this real income induce another section of the owners to postpone more of their own consumption than they would otherwise have postponed, the net result may be an increased demand for labor; but then the increased demand for labor arises from the greater willingness to postpone consumption. More of the real income of society, not less, is offered in exchange for the labor which will create those forms of consumption goods which are most in demand. But if the increased demand for commodities be universal, if, that is, there is less willingness on the whole on the part of the owners of real income to postpone consumption, the result will be not an increase in the demand for labor but a diminution of the demand. Since the laborers who own practically none of this real income must be supported out of this income they will have to offer their share in the future income of society at a greater discount, and the result will be a lower rate of wages. That this result never occurs is due to two facts: (1) that owing to the law of diminishing utility the owners of real income—made up, as it is, largely of goods capable of satisfying only the most elementary wants—cannot possibly consume the whole of it, and (2) that, in one large section of the owners, the instinct for postponement (with a view to making money) is much stronger than the instinct which would lead them to consume the whole of their share of this income. The owners of the real

income are roughly divisible into two classes, the spenders and the savers; and an increased demand from the spenders (if that be possible for them without selling part of their right to a share in the future income of society) creates often so much the more inducement to the savers to postpone their consumption. We can thus see clearly how far the luxurious expenditure of the rich does and does not benefit the working classes. In so far as it induces the other section of the owners of income to postpone a larger amount of their consumption it will benefit the working classes: in so far as it means a net diminution of the amount of postponement and a net increase of the immediate consumption of income by the immediate owners such expenditure materially injures the working classes. On the other hand, an increase of wages which leads to a steadier and wider demand for that class of goods in the production of which the law of increasing returns is operative may induce the saving section to save more and thus increase the amount they are willing to expend in the purchase of the inchoate wealth which belongs or will belong to the laborer.

The third proposition is to the effect that this Wages Fund is distributed amongst the laborers solely by means of competition and the rate of wages depends on the proportion between capital and population—both these terms being theoretically understood as elliptical expressions. We need not attempt to show that however completely wages are deter-

mined in the present day by competition, historically law and customs have been more important in the determination of wages. Had the attention of Ricardo and of Mill been directed to the history of labor they would probably have been ready enough to admit the existence of other determining forces than competition; but they would probably have continued to treat the wages question as they did. They would have contended that we can be practically interested only in the (to them) undoubted tendency of economic progress to bring about that condition of competition their theory postulated. The stage of law and custom was, they considered, an imperfect development: the stage of competition, though, perhaps, not realized completely anywhere, was the end towards which things were moving. On the other hand, we need not attempt to discuss whether competition is realized in actual circumstances, how far it ought to be realized, or how far it is merely a transitional stage between custom and combination.

What we do require to discuss is the ultimate assumption that lies behind this third proposition that labor is a commodity subject, when it is bought and sold, to all the laws which govern the sale of other commodities. The Wages-Fund Theory not only treats labor as a commodity, but, if we may take Mill's exposition as our standard, as *the* commodity. The value of labor, according to Mill, is always a market value, and the fluctuations of this market value are not checked, as the fluctuations in the

value of most commodities are, by the cost of production. When a commodity is of such a nature as to "admit of indefinite multiplication," * the fluctuations of its market value from its cost of production are within very narrow limits; but so far as the "exceptional case" of "commodities not susceptible of being multiplied at pleasure" the fluctuations of the market value are in no wise restricted. "The principle of the exception stretches wider and embraces more cases than might at first be supposed." "Finally," he continues, "there are commodities of which, though capable of being increased or diminished to a great, and even to an unlimited, extent, the value never depends on anything but demand and supply. This is the case in particular with labor." †

Labor, then, is a commodity subject, in an exceptional degree, to the law of demand and supply. Like the commodities exchanged in International Trade, where industrial competition does not enter, it is one of the simplest cases of value. The

* *Principles*, Book III., c. 2, p. 272.

† Professor Marshall points out that Mill, under the influence of his social sympathies, separated the theory of distribution from the theory of exchange and, owing to the remarkably short time in which the *Principles* were written, failed to co-ordinate the different parts of his general theory. Certainly, in the second book, wages are said to be determined by the proportion between capital and population—the demand and the supply of the Wages-Fund Theory ; but, in the third book, he substitutes equation for proportion and shows that demand is not independent of but dependent on supply, being simply the quantity demanded at a given price. The consistency or the inconsistency, however, of Mill's theories and expressions is not our object.

supply of labor is not determined by competition, but by an extraneous force, the principle of population; and the supply is on the market and must be disposed of regardless of sacrifice. The demand being determined by the intentions of the employers may also be regarded as fixed; and the price of labor, therefore, depends, simply and unreservedly, on the proportion between supply and demand. The value of labor, therefore, differs from the values of other commodities in not being subject to steadying influence of the cost of production.*

The value of labor is certainly not determined as other values are; but it is not therefore determined more simply. On the contrary, it is a more complicated case of value. Factors which have been eliminated from the determination of the value of other commodities are still present in the determination of the value of labor. Commodities, probably all commodities but labor, are placed on the market, where the value is determined mainly by demand. The seller may come to the market with a definite idea of what he regards to be the proper supply price of the commodity he offers for sale, and may

* In a sense, it was necessary for the cost of production theory of value that labor, at least, as one of the ultimate elements in the cost, should have a value directly determined, so that it might prove acceptable as one of the determinants of the permanent value of the commodities. The cost of production can be regarded as a final analysis of value only if the respective elements of the cost are fixed and independent values. The method of making labor a fixed and independent value by regarding it as determined by the equation of supply and demand does not commend itself.

withhold a portion of the supply because the price he can obtain is lower than his supply price; but it is the demand which determines whether he shall withhold or not. Generally speaking, and for most commodities, the seller is forced to accept the price fixed by demand. The commodity may be perishable and, in that case, it must be sold regardless of cost. In every case competition has cut the margin of profit so close that it is a question whether the seller can afford to stand out of his money by refusing to sell. The Theorists, strong in the sense of their first proposition, insist that the laborer is also in the condition of having a commodity to sell which his necessities will not allow him to withhold from the market. He must sell; for his goods are peculiarly perishable. Hence it might be argued that the supply price of labor is, so far as its effect on the market price goes, practically non-existent; and the market price will be determined from the side of supply alone at such a figure as will carry off the whole of the supply. But the case is not so simple as it is thus made to appear. The supply price of the commodity has little effect on the market price; simply because it is only a question of relative profit whether the commodity is sold or not. The seller may desire a higher price, but his necessity of meeting his obligations may compel him to place his whole supply on the market. The only reason that he can have for withholding part, or the whole, of his supply, is the question of relative profitableness. The higher price which he

hopes to obtain may more than make up for the immediate loss incurred by refusing to sell. There is, as a rule, no other reason why he should withhold. He has no personal attachments to the commodity to induce him to withhold it. To withhold it is to incur extra expense and extra risk, an allowance for which must be deducted from the higher price to be afterwards realized before the net profit appears. Accordingly, since the margin of profit is generally cut very close by competition, the supply will be seldom withheld and the demand price will be the market price. The laborer, however, is in an entirely different position. His labor, it is true, is essentially a perishable commodity which must be sold at once, if it is to be sold at all; and the laborer must sell in order to live. On the other hand, he is intensely interested in what he does sell. Labor involves disutility; and, moreover, when the laborer sells his labor he must, so to speak, deliver it himself. The laborer incurs no expense and no risk in withholding his labor; and, if his powers are not always recruited in idleness, by withholding he escapes the sacrifice involved in labor. If it were not that he must sell in order to live, his position in the labor market could be exceptionally strong; and even when he is thus compelled to sell, and sell at once, his personal feelings, as well as his home and place attachment, enable him to demand better terms. Adam Smith's famous statement of the immobility of labor does not justify the conclusion usually drawn from it.

"Such a difference in prices, which, it seems, is not always sufficient to transport a man from one parish to another, would necessarily occasion so great a transportation of the most bulky commodities not only from one parish to another, but from one end of the kingdom, almost from one end of the world to the other, as would soon reduce them more nearly to a level. After all that has been said of the levity and inconstancy of human nature, it appears evidently from experience that man is of all sorts of luggage the most difficult to be transported." *

The usual inference is that the wages of the laborer must suffer on account of his local attachments. In individual cases this may be true; but, on the whole, the general and ultimate result is not so serious as it might be. These home and place attachments form a large part of our personality and on them is based to a great extent our self-respect. It is not an extravagant claim to make that the self-respect, even of a laborer who must work, has a strong influence on wages. If the worst come to the worst the self-respect of the laborer would not stand; but the worst seldom comes to the worst. The competition between master and man is rarely a combat *à outrance*. The employer may know that, if he tried, he could coerce the laborer into submission; but the known obstinacy or firmness of the laborer may prevent him from trying. The larger the number of laborers whose self-respect is threatened the greater the influence of this factor in

* *Wealth of Nations*, p. 31.

determining the wages paid. The conflict between capital and labor is not a personal conflict, but a competition to determine the share of each in the results of their common labor. The laborer obtains a larger wage than he might be forced to accept because the motive for paying wages is not the disbursement of a fund, but the making of a profit. To compel an unwilling laborer to work for less than he thinks he is worth means delay to begin with (and time is money), and, in the second place, it generally means, also, less effective work. Economists all admit that moral character enters into efficiency; and an unwilling laborer, working under a supposed grievance and an outraged sense of justice, is not likely to be highly efficient. Wages are determined from the employer's point of view by the surplus he hopes to realize after he has repaid to his capital account his expenditure on wages; and the surplus may be as large when the efficiency is great, though the wages are high, as it is when, out of a small product, low wages are paid.

Labor, then, if it be a commodity, is a commodity of a peculiar kind. It is a commodity which has a definite supply price—a price which, moreover, it may be just as profitable for the buyer to pay. The buyer of labor, omitting the case of service, buys to produce, not to consume; and he acquires no passive instrument of an unvarying efficiency. He acquires an instrument of production whose efficiency is determined, in part, by moral considerations, an in-

strument which may be wasteful, or provident and careful, in the use of other instruments and agencies of production. The efficiency of passive instruments depends on the laborer. Consequently, when labor is bought, the purchaser takes into account the difference between labor and other commodities, and is therefore the more willing to make moderate concessions if by so doing he can remove all unwillingness and sense of unfairness from the mind of the laborer. This is the reason why a body of laborers, who must work but yet are unwilling to accept less than their self-respect tells them they are worth, are not forced by their necessities to accept starvation wages. The employer knows what he has to purchase, and acts accordingly.

The value of labor, therefore, is not determined as the value of all other commodities is; because labor is not a commodity in every respect similar to other commodities. Labor is a commodity which has retained a definite supply price to a much greater extent than any other commodity has; and this supply price, under the motives and conditions of the hiring of labor, cannot be without effect on the resultant market price, because, in the case considered by the Wages-Fund Theory of hired labor, the demand price of labor is fixed not with immediate reference to the utility of the purchase, but to the utilities, or the command of utilities, which labor can produce in excess of those handed over to the laborer as his reward.

The Wages-Fund Theory, accepted uncritically for the hundred years of its growth and maturity, was in the fullness of time suddenly criticised and rejected; and in its stead reigned the productivity of labor theory.

CHAPTER III.

THE PRODUCTIVITY OF LABOR THEORY.

THIS theory was developed as a criticism of the dominant Wages-Fund Theory; and, in the survival of references and criticisms and in the general point of view which has been adopted on account of a too exclusive attention to the theory criticised, continues to bear evident marks of its polemical origin. The Wages-Fund Theory, was, in its origin, based on Ricardo's practical limitation of capital to the food, etc., advanced to the laborers; but, as the theory became more systematic, and was rounded off for the sake of illustration, capital came, for the purposes of the theory of wages, to be spoken of as if it were synonymous with money; and the Wages-Fund Theory became merely a theory of money wages. The distinction between real wages and money wages was duly made; but it had no further place in the discussion. One of the earliest objections raised—and the fact that it was not raised earlier is an evidence of the firm hold the Wages-Fund Theory had on the minds of the men of the

generation between Ricardo and Mill—was to the effect that the wages fund need not be absolutely determinate and predetermined; for the banks, by means of cash credits, enabled an employer, when necessary, to increase the wages fund, notwithstanding his former estimate and "intention." The reference in this criticism is obviously to money wages; and subsequent criticism followed the same lines. The distinction between money wages and real wages was still drawn; but, in the statement of the general problem, in the solution, and in the methods by which the solution is obtained, the supporters of the new theory, whether as critics of the old or expositors of the new, practically kept money wages alone before their minds. For this is the meaning of the iteration of illustrations showing that labor is often advanced to the capitalist and that the product in numberless instances is sold before the wages of the laborers are paid; and the meaning also of the total neglect of the fact that if labor is paid out of the product it cannot be paid out of the product of its present employment, but out of the product of past employment. As far as money wages is concerned, everything may be yielded to their contentions—except the immediate dependence of the laborer on his employer, through whom he receives his derivative share of real income. The wages fund, in the money sense, is not predetermined, is not limited; and the share which labor receives is not a question of the rules of arithmetic. We may as readily admit to the critics that

the motive for paying wages is the surplus of the product which will remain in the hands of the employer when the cycle is completed. The employer, as we saw, is generally not the ultimate banker, but the broker; and, if he does not anticipate good terms when he rediscounts, neither can he offer good terms. The difference between the rate he pays and the rate he charges is the sole motive for making advances at all. This, expressed in other terms than they employ, is true and valid as a criticism of the Wages-Fund Theory, but it does not advance us beyond the theory. It was well, perhaps, to show that even on its own ground the Wages-Fund Theory may be overthrown; but this is, after all, only a negative contribution to knowledge. The real problem deals with real wages; and these are, as we saw in the last chapter, evidently drawn from a practically fixed and predetermined fund; and, as a solution of the real problem, the productivity theory is simply an *ignoratio elenchi.*

But we must follow the example of the founders of this theory in their criticism of the Wages-Fund Theory, and discuss the new theory on its own grounds before we can proceed to the statement of a theory which better explains the facts of modern industrial life, and offers a more hopeful solution and answer to the wages question.

In the first chapter we found, in the perplexities which surround the relation between wages and the standard of living, the difficulty of determining by the method of concomitant variations the direction

of the causal relation; and the same difficulty meets us again on the threshold of the third theory. There the difficulty was to decide between the *pro* and the *con*, between the theory and its critics: here the difficulty is to decide between two rival theories each entitled apparently to call itself the productivity theory. High wages and large output are causally connected. This much has been established beyond possibility of doubt. Statisticians have proved the connection by facts and figures drawn from all countries and all industries and under the most diverse conditions. Historical and contemporaneous records have been drawn upon so liberally that sometimes we can hardly see the wood for the trees. But which is cause and which effect has not been so clearly proved. Whether is high wages the cause of the large output or the large output the cause of high wages? This is not clear; for we have two rival theories each appealing to the arbitration of the same facts, and some writers varying from the one theory to the other, without recognizing the essential difference between them. The one theory maintains that high wages precede and give rise to an increased product which, in time, provides the justification of the higher wages. The other is the converse of the first, and asserts that high wages are paid where the efficiency of labor is great, and are paid only because the efficiency is great. Since the rival theories appeal to the same facts, the divergence between them appears more clearly in the practical conclusions than in the theoretical statements. The exponents

of the first are, generally, to be found among those who desire State or municipal interference on behalf of labor; and their appeal is to history to justify what they admit to be a leap in the dark. They are distinguished, at present, by their advocacy of a shorter working day or of profit-sharing and other schemes to improve the relations between employers and employed. The supporters of the second version are the most ardent promoters of industrial and technical education and other direct and indirect methods of increasing efficiency; because they assume that, since wages are paid out of the product, competition will transfer to the working classes the whole of the increase of the product due to increased efficiency.

The first, which is probably the version of the theory most generally adopted, on a first analysis, seems to be little more than a less simple and naïve form of the subsistence theory. The proposition on which it rests is that higher wages can be paid because the greater efficiency which results from the higher wages will serve to recoup the employer. It is admitted, in all but terms, that the advance of wages is a leap in the dark, but a leap experience shows to be more than mere rashness. The higher wages, the argument runs, will enable the laborer to eat better food and wear better clothing and live generally under more favorable conditions. So sure are the supporters of this version of the theory that there is a very close and definite relation between better living and better work that they have neither

scrupled nor hesitated to indulge in a good deal of miscellaneous condemnation of those short-sighted employers who cannot, or will not, read the lessons of history.

Yet the very facts which they adduce in support of their contention seem to afford some sort of justification for the "short-sighted" employer. An employer may recognize fully that, in the long run, higher wages might not be a bad investment, and yet be unable and unwilling to make the experiment. The laborer sells his labor, but he remains his own master; and, when his contract has expired, may take himself off when he pleases. We do not hear so much nowadays of Jeshurun waxing fat; but the danger of the sequel may reasonably enough impress the mind of a cautious employer. He pays better wages and, after a time, the laborer is able to do, and probably does, better work; but before the employer has been fully recouped for his advantages the laborer may take himself off. It is true that there is not very much reason why he should change his employer; but the chances and changes of life are infinite. The experience of other employers and of other countries and the evidence from industrial history, then, may render the successful issue of the experiment very probable; but they do not guarantee the individual employer against risk. Therefore, although it may be admitted that, where wages are very low, the return to the investment may come so quickly that the risk is very small, it does not follow that, when wages are not extremely low, the result

will be so immediate and so favorable. Similarly, although the experience of England in the working of the Factory Acts and the shortening of the hours of labor may justify experiments in Germany and in the United States, it does not, and cannot, prove that the next experiment in England in the same direction will be a success. There is some limit to a profitable reduction of hours as there is to an economical intensification of labor; and it may be, as a witness before the Canadian Labor Commission put it, that a further reduction "might be the last straw which sometimes breaks the camel's back." *

The opinion of the witness as to the particular limit may, or may not, be correct, but there is no doubt that there is a limit. The larger the number and the greater the extent of the earlier experiments, the more uncertain will be the issue of the next one. The statistics quoted show that there is some good

* *Canadian Labor Commission*, Ontario Evidence, p. 744. Mr. Tuckett (tobacco manufacturer, Hamilton). Witness had reduced the hours in his factory from ten to nine without making any reduction of wages or finding any reduction in the product.

"Q. Having found the nine-hour movement profitable and satisfactory, could you not reduce it still more with the same result? A. It might be the last straw which sometimes breaks the camel's back.

"Q. You think that nine hours is a fair limit? A. I think so; from what I have seen and heard I think it has proven to be about the limit.

"Q. You have not tried any other? A. Of course, I am only speaking of what I have read in the papers of the United States. I find that the jumping into the eight hours has caused a great deal of trouble; it is going too far the other way. There is always a happy medium."

ground for hesitation. When wages are arbitrarily raised, or when hours are reduced, the output does not always increase proportionally; and unless the efficiency of the laborer increases at once, and proportionally to the rise in his wages, or unless, in spite of the reduction of the hours, the output is at least maintained, then the profits of the employer suffer. However willing the employer may be to wait to recoup himself, the conditions of competition may not permit him so to wait. If he is carrying on business on a borrowed capital and has to meet obligations from day to day, the margin is probably already cut too close to allow him to lock up part of his resources in the hope of a somewhat uncertain reimbursement. If, moreover, in the market he has to meet competitors who are not making any experiment and not incurring any loss, even for the time being, it may be impossible for him to maintain his ground, and thus a temporary loss may turn out to be final and irretrievable. The English manufacturer fears the competition of the foreigner, and the New England manufacturer the competition of the new mills in the Southern States; and they declare that in face of this competition they cannot safely lock up part of their resources. If a manufacturer hesitate to add one other element of uncertainty to business, he is at any rate not open to the charge of being short-sighted. An employer, strong in his resources, strong in the hold which he has on his customers, and strong also, perhaps, in the attachment of his men to his service, may be able to make

such experiments; and in this case, as in many others, as Professor Walker has shown,* it is the incompetent employer who is the worst enemy of the working classes.

The higher the wages, and the higher the standard of comfort, the more uncertain does it become that the standard of efficiency will rise with every rise of wages, however slight, and rise correspondingly. Brentano, however, takes the position that they do. In his *Hours, Wages, and Production*, he claims that, in the years 1872, '73, '74, production increased and then diminished as wages rose and fell:

"According to the official records, the year of the great rise in wages in the largest state mines, 1872, was followed by a considerable increase in the average output of the workmen. . . . Another official investigation, entitled 'Contribution to the Statistics of the Dortmund Mining District,' by a mining official named Hiltrop, showed in fact that, in the above-named mining district, the general fall of wages in 1874 was accompanied by a diminution of production." †

The figures undoubtedly show that the output increased; and we know that there was a rise in wages (the figures of variations in wages are not given, in this instance, for comparison); but we have still to settle which was cause and which effect. The fluctuations of wages in these years followed

* Walker, *Political Economy*, Part IV., chap. iv.

† Brentano, *Hours, Wages, and Production*, pp. 11, 12.

each other quickly. Higher wages can lead to increased efficiency only if they are spent in such a way as to improve the physical condition of the workers; and the tradition of the extravagant expenditure of the working classes during these years —feeding their bull-dog pups on cream, as the Midlothian miners were said to do—shows that the higher wages were not necessarily so spent. A sudden increase of wages, unfortunately, frequently means an increase of dissipation. Chancellors of the Exchequer have, on occasion, lamented with somewhat chastened sorrow the increase of the revenue from excise during years of prosperity; which means that the increased wages are not being spent in a manner which will increase efficiency.

The causal connection, in this instance, is almost surely from production to wages. Prices rose and the mine-owners and other employers, naturally desiring to take full advantage of the rise, endeavored to increase their output. The employees were aware that prices were rising and demanded their share; and the employers, rather than face labor troubles at such a time, yielded the demand, being willing to sacrifice a part of the increased profit rather than lose the whole.

Brentano's argument is evidently based on the assumption, which we cannot admit, that the laborer at all times works up to his efficiency, and that an increase of his output must be due to an increase of his efficiency. But the laborer does not, as a rule, do his best; and his output might be largely in-

creased without any change in the standard of efficiency. If we take the actual output as a measure of efficiency, we are stating a merely identical proposition when we assert that the increased output is due to a rise in the standard of efficiency. An increase of wages can cause a rise of efficiency only if each laborer is doing his best; and the trade-union and general working-class objection to the man who works his hardest, which Mr. Schloss describes,* shows us that we cannot measure efficiency merely by output. An increase of the output might occur, even without a rise in wages and a consequent improvement of the standard of living, if, in some way or other, by a change of the method of remuneration, as in profit-sharing, for instance, the laborer could be induced to work up to his efficiency. There may be other methods, but the surest method of inducing a man to the best that in him lies, is to offer him the prospect of higher wages. This is what actually happened in the early seventies. The mine-owners paid higher wages and got more work out of their laborers; but the miners did not spend the increase in making themselves more efficient, and so it came about that, when depression occurred, and the mine-owners no longer offered the inducement to extra exertion, the miners fell back into their old habits and came just as much short of their efficiency output as before. Had they, by wise expenditure of the higher wages, made themselves more efficient, the output would not have fallen back to its former

* Schloss, *The Methods of Industrial Remuneration.*

level, even supposing their old slovenly habit of not doing their best, without special inducement, had reasserted itself. Their best then would have been so much better. A more "plentiful subsistence" will no doubt increase the output, but it is not the only nor an immediate method of increasing it. "The wages of labor are the encouragement of industry," and high wages operate directly to make a man come up to his standard of efficiency. If the high wages continue, and are wisely expended, indirectly they may also help to raise the standard; but since the standard of comfort can be raised only gradually and slowly, and efficiency can only be slowly changed as the result of a more plentiful subsistence, the indirect effect cannot be anything like so apparent, or so immediate, as Brentano asserts it to be.

But, even under the assumption that an increase of the output can be only due to an increase of efficiency, the comparative statistics on which so much reliance is placed to prove that higher wages increase efficiency, do not bear out the conclusion. What should be proved is that, for every rise in wages, there is a corresponding increase in the output: what is proved is that every rise of wages is accompanied by an increased output. We can best make clear the hiatus in the proof by taking the comparative tables and expressing them as variations from a common index number. Take, for instance, the tables quoted by Brentano comparing wages and output in the textile industries at different periods and in different countries.

COMPARISON OF WAGES AND OUTPUT OF COTTON SPINNERS, ENGLAND.*

PERIOD.	AVERAGE PRODUCT PER WORKER.	AVERAGE WAGES.
1844–46	100	100
1859–61	133	113
1880–82	200	154

COMPARISON OF WAGES AND OUTPUT OF COTTON WEAVERS, ENGLAND.*

PERIOD.	AVERAGE PRODUCT.	AVERAGE WAGES.
1844–46	100	100
1859–61	192	125
1880–81	243	159

INTERNATIONAL COMPARISON OF WAGES AND OUTPUT IN WEAVING.*

COUNTRY.	OUTPUT.	WEEKLY WAGES.
Germany	100	100
England	153.6	139.5

INTERNATIONAL COMPARISON OF WAGES AND OUTPUT IN COAL MINING. †

COUNTRY.	OUTPUT.	ANNUAL WAGES.
United States, 1880	100	100
Pennsylvania, 1880	148	103
North Staffordshire, 1884	84	77
Saarbrück Collieries	68	69
Dortmund Collieries	74	68

The general arguments in favor of shorter hours are open to similar objections. There is the same hiatus in the proof that shorter hours mean larger

* Brentano, *op. cit.*, pp. 62, 68.

† Schoenhof, *Economy of High Wages*, p. 209.

production. We are concerned only with that part of the agitation for a shorter working day which claims that wages need not be reduced correspondingly. If the working classes will submit to a reduction of wages corresponding to the reduction of hours the problem becomes entirely different and has nothing to do with the theory that a higher standard of living, whether made possible by higher wages or by greater leisure, is the cause of greater efficiency. The figures do not bear out the contention that because greater leisure means greater efficiency an employer may safely continue to pay the same wages per week after he has reduced the hours of labor. In the long run this may be the result, but there will be immediate loss to the employer, which he may not be able to afford. The change is an experiment and an experiment has never a certain issue. The argument demands a closer connection between mere physical strength and efficiency than actually exists. The difference between a working week of sixty and a week of fifty-eight does not give so much more time for rest and recreation, does not imply so greatly diminished a demand on the energy of the worker that we can look for him to make up from this source alone the wages of the two hours he has sacrificed. He may work harder in order to still earn his old weekly wages; but that is not the meaning of the assertion that the shorter hours have made it possible for him, for the first time, to work harder. In the long run we may admit that the contention may be borne out by the

facts; but the theory implies that it is borne out in the short run; and in so doing it tries to prove too much. The reduction of hours where the working day has not previously been excessive, without a corresponding reduction of the daily or the weekly wages, is an industrial experiment which the issue may or may not justify. It may be that the employer is as a rule over-cautious in making the experiment,* but it ought to be admitted that he is being asked to make an experiment.

* This general argument against shortening the hours of labor which an individual employer may justifiably use is frequently supplemented by the declaration that where machinery is largely employed the efficiency of the laborer has no effect on the product. This argument finds emphatic and enlightened expression in an article on Factory Legislation in the United States in *Bulletin of the National Association of Wool Manufacturers* (September, 1895). "A given amount of machinery, no matter how perfect, cannot be so speeded as to turn out a product in fifty-eight hours, equal to that of the same machinery running sixty hours just over the border line. . . . It is, therefore, true that the difference of two hours a week between Massachusetts and Rhode Island, assuming that wages are the same in both States notwithstanding that difference, may be ample, in and of itself, to make the difference between running the mill at a profit and running it at a loss.† . . . A steam engine will drive machinery at the same rate of speed the world over. A modern spindle will make

† "As it is now, a Rhode Island mill of two thousand looms can produce twenty thousand yards per week, or a million yards per year, more of print cloth than one in Massachusetts, as the difference between fifty-eight and sixty hours per week" (Boston *Commercial Bulletin*). This, however, is little more than an unqualified reassertion of an old fallacy that machinery does away with skill and makes but slight demands of the energy of the operative. This was the argument of the early English factory-owners, and under influence of this idea the elder Sir Robert Peel declared that the factory system had become, instead of a blessing to a nation, its bitterest curse. The same line of argument would also dispose of the general admission the writer in the *Bulletin* is inclined to make, that an eleven hours' day is more productive than a thirteen or a fourteen hours' day.

This first version of the productivity theory, which asserts that the direction of the causal relation is from higher wages to increased production, resembles the more scientific statements of the subsistence theory in one important particular. Both theories recognize that it is necessary to provide some sort of justification and assurance that the industrial experiment of paying higher wages which they propose will not lead to a disastrous issue. In the one case, the higher wages which are in consequence of a higher standard of life are proved to be, in the long run, economical and therefore justifiable. Higher wages mean an increased demand for commodities, and the demand of the working classes is so great and so steady that more economical processes of production can be introduced and the total output, therefore, increased. In the second case, the higher wages lead directly to an increase in the efficiency of one of the agents of production, labor, not capital

9000 revolutions per minute, whether located in Massachusetts or in the Piedmont region of the South. A loom adjusted to 150 picks per minute in the one section will be adjusted to the same speed in another. No appliance of Yankee ingenuity for reducing labor cost, saving materials, or expediting processes, fails of adoption everywhere as soon as its value is proven. . . .

"It follows that in a State where ten hours is the legal day, the production of a mill will not equal by ten per cent. the production of a similar mill engaged upon the same class of work in a State where eleven hours constitute a day's work, provided that the management is equally efficient.

"This is as susceptible of proof as a problem in mathematics. It has, in fact, been repeatedly demonstrated in the experience of New England manufacturers" (pp. 264–266).

in this instance, and consequently to a larger output. In both cases the advance of wages is arbitrary, and in a sense accidental, but the advance sets forces at work which in the long run provide an *ex post facto* justification for the advance. In the long run, there is no doubt that an advance of wages will justify itself, economically, either indirectly as the first theory or directly as the second suggests: the trouble is that a failure of the coincidence of the short run and the long run may prevent the trial of the experiment altogether.

The other version of the theory has more to commend it. It approaches the problem from the right end and does not need to postulate industrial experiments to prove its truth. It takes its stand on the indisputable fact that when more is produced the employer can afford to pay more, absolutely, if not relatively, for labor; and asserts, or assumes, that competition will transfer to the laborer all that he has produced. This is the form of the productivity theory which should commend itself to the employer, for it involves no addition of uncertainty or risk to business, and demands no leaps in the dark. Because of the possibility of waste of the raw material or of carelessness in the handling of delicate machinery, the advocates of this version are ready to admit that it is better to pay higher wages than to pay low, and give their consent to the doctrine of the economy of high wages. But they reject the popular inference that the only way to increase production is to raise wages. Wages may, for the

time being, rise above the efficiency limit; but, in the nature of things, such a rise must be temporary; and their contention is that, in the long run, the only real and effective measures for raising wages are those which seek to raise the standard of the laborer's efficiency. A rise due to any other cause is accidental: a rise of wages which follows from increased efficiency will, in all probability, be a permanent rise because it has been granted on account of the competition of employers among themselves. Higher efficiency of labor gives the possibility of greater profits, and the prospect of higher profits means keener competition among the employers for workmen and the consequent transfer to the workers of the whole or the greater part of the extra profits. Competition, however, is not so active in the interests of the workers as this version assumes, because, in the first place, the competition of the masters with each other for labor is offset by the competition of laborers with each other for employment, and, in the second place, the competition of the masters is rapidly being replaced by combination and joint action.

Care is not always taken to distinguish whether it is the increment of the output due to the increased efficiency of labor, or more or less than this amount, that is transferred to labor by competition; and frequently confusion has arisen on this account. There are obviously other means of increasing the output than raising the efficiency of labor, and the question which this version seems, *ex hypothesi*, to de-

cide in the negative is whether labor obtains any share of the increase in the product which has arisen from any other cause. To admit that labor does, or can, receive a share of what it did not help to create is to abandon, or at least to modify seriously, the productivity theory and to substitute for a law of wages the merely vague and general statement that out of a larger product larger wages can be paid. If labor permanently receives either more or less than the amount fixed by its efficiency, we must altogether abandon the notion that labor receives a determinate share, as by right, or adopt, in its place, the make-shift explanation that labor's share of the product is residual.

A close examination of the facts seems to indicate that the one alternative or the other must be accepted. The great increase of the product, which comparative statistics show, has not been due, in any large degree, to an improvement in efficiency. There has been during the last half-century a steady increase in the average amount of capital necessary to set a laborer at work and, at the same time, in the amount of capital necessary to produce a product of a given value; or, to put the same fact more concretely, an increased application of machinery in production. The consequence is, as we might expect, that although the product of industry has increased, the proportion of the product going to labor has diminished. Absolute wages may have increased, but relative wages have diminished. It is what we might expect, because the amount of the

capital invested has increased more rapidly than the product. If we take the wages paid in, the amount of capital invested in, and the total product of, the mechanical and manufacturing industries in the United States, in 1860, as each equivalent to 100, we find that in 1890 the capital invested would be represented by 546 and the product by 397 and the wages by 168.

COMPARISON OF INDUSTRY IN 1860 AND 1890 IN U. S.

	CAPITAL.	PRODUCT.	WAGES.
1860	100	100	100
1890	546	397	168

We find similar results in the development of industry in Canada, though we cannot carry the comparison so far back.

COMPARISON OF INDUSTRY 1881 AND 1891 IN CANADA.

	CAPITAL.	PRODUCT.	WAGES.
1881	100	100	100
1891	215	153	117

The following tables bring out the same results in another way. They compare the amounts of capital employed to produce a product valued at $100, and the percentage of the net product, *i. e.*, of the product minus the raw material, that goes to labor.

UNITED STATES.

	CAPITAL PER $100 OF PRODUCT.	PERCENTAGE OF PRODUCT GOING TO LABOR.
1850	$52.32	51
1890	69.62	45

CANADA.*

	CAPITAL PER $100 OF PRODUCT.	PERCENTAGE OF PRODUCT GOING TO LABOR.
1881	$53.07	45.7
1891	74.36	45.7

The results support the conclusion we have already drawn from the comparative tables, given on p. 91, that there is no exact parallelism between the advance of wages and the increase of the product. The comparison shows also, however, that, in spite of the increased proportion of capital employed, the relative share of the product going to capital has not increased, and the relative share going to labor has not diminished correspondingly. Labor has been able to make good a claim to a large part of this increased product. The capital necessary to produce a value of $100 has increased thirty-three per cent. in the industry of the United States, but the share going to labor has been diminished by a little more than eleven per cent. Thus the second version of the productivity theory is inadequate. The laborer's contribution to every $100 worth of product has obviously

* The figures for Canada, which are taken from *The Statistical Year Book* of Canada, issued by the Dominion statistician, are open to the suspicion of partisanship. The Liberal party in Canada has always declared that the sections of the census of 1891 dealing with industry are a partisan document, intended to prove that the National Policy has been a great success. Canada is admittedly not industrially as far developed as the United States, and it can hardly be the case that there has been a greater increase in Canada in ten years than in the United States in forty years in the amount of capital necessary to produce a product worth $100. The amount of capital employed to produce a product of a given value is a sure indication of the stage of industrial development.

fallen, and his share of the product has also fallen, but has not fallen correspondingly. It is true that the laborer's contribution to a given product does not fall in the same degree as the amount of capital is increased. The intelligence of the laborer is a condition of the use of machinery. The laborer's lack of skill and general intelligence is often the cause why newer and more elaborate machinery is not introduced; and if more machinery has been introduced it must have been because the higher intelligence of the laborer has rendered it possible. The increased product, therefore, which has resulted from the greater use of machinery cannot all be attributed to the increase in the amount of capital employed. But the intelligence of the laborer has not improved to an extent sufficient to account for the fact that his share of the product has fallen by only eleven per cent.* The contention of Mr. Malloch's *Labor and the Popular Welfare*, "that labor is no more productive to-day than it was a century ago," is only an exaggeration of the important fact that the increased productivity of industry is not altogether due to the increased intelligence of the working classes.

* We have no means of determining, even with approximate accuracy, the amount of the increased contribution of the laborer made when machinery is employed. In one case we do know that all of the increase of the product, due entirely to labor, is not handed over to the laborer. This is the case of Profit Sharing. "Under the stimulus of Profit Sharing the workers must create the additional profits they are to receive" (Professor Nicholson, *Contemporary Review*, 1890, p. 68); but they do not receive the whole of the additional profit they create.

The cause of the fact that the relative share going to labor has not diminished proportionally with the increase in the use of capital cannot be simply that the total product has increased. The total product is not so large, even after all the increase of recent years, that any claimant, through satiety, will abandon part of the share he could obtain. The real reason is that since an increased use of machinery is not possible without the active co-operation of labor, the position of the laborer has been improved. His best efforts are necessary for the employment of this increased capital and to call these forth the capitalist has been compelled to offer him as an inducement a larger share of the product than apparently he is entitled to. The position of the capitalist has been correspondingly weakened by this necessity. The productivity theory, in one version or the other, has attained general acceptance and has been embodied in a practical formula regarding the economy in high wages. This formula is made the basis of the enlightened discussion of the tariff question in opposition to those who, ignorantly, raise the cry of "pauper labor," and of the economic discussion of the shortening of the working day, in opposition to those mechanical ideas of labor which regard the laborer as a machine which must necessarily produce twice as much in sixteen hours as in eight. The economy of high wages is preached as a gospel of hope for the laborer with, possibly, not a very clear recognition of the consequence that, if the gospel is true, a shortening of the hours of labor is not a

lessening of labor and an increase of wages per unit of time may even mean a diminution of wages per unit of effort; and there is both surprise and indignation that the doctrine should ever be, or have been, called in question. Yet it is a comparatively new gospel which has, within thirty years, arisen to supplant the depressing doctrine of the economy of low wages. We may practically date the new theory from the early fifties, when, to the immense astonishment of advocate and opponent alike, the Factory Acts did not ruin English industry, but inspired it with new life. The accepted doctrine, down to the middle of the century, was of the economy of low wages. Even those who, in deference to Adam Smith, had accepted, without full understanding, a more hopeful doctrine, rejected incontinently the practical inference that a shortening of the hours of labor might even increase productive capacity. McCulloch, who had loyally followed Adam Smith in denying that high wages encourage dissipation and idleness, and Senior, who made the first anticipatory steps away from the Wages-Fund Theory to the Productivity Theory, were, at first at least, strenuous opponents to the Factory Acts. It was Senior whose "last hour" gave the rallying cry to the opponents of the measure, although he, like many of the other opponents of the Factory legislation, was converted by the unexpected effects of the Act on the textile industries.

The doctrine of the economy of low wages was a natural, though perhaps not a necessary, inference

from the Mercantile theories of last century, as it is from protectionist theories of to-day. It is significant, at any rate, that the overthrow of Mercantilism was followed by the demonstration that the inference from it was not consistent with the actual experience. In 1845 the repeal of the Corn Laws marks the final overthrow of Mercantilism, and the Ten Hours Law of 1847 had such unexpected results in stimulating industry that it was no longer possible to hold the purely mechanical idea of labor. As the triumph of free trade was the end of a long process of change and conversion, so the practical demonstration by the factory act was all that was needed to complete that change of views which begins with Adam Smith's enthusiastic advocacy of the doctrine that cheap labor and low-priced labor are not necessarily synonymous. Senior and Lord Brassey, however, were the first to show, by means of extended illustrations and statistics, the fallacy of the older view. They did not, it is true, advance the modern theory in its unqualified form. They suggested an indifference theory to the effect that it did not matter much to the employer whether he paid high wages to efficient men or low wages to inefficient men. "It may be supposed," says Senior, "that the price of labor is everywhere and at all times the same," * and Lord Brassey declares, in the introduction to *Foreign Work and English Wages*, that the cost of work as dis-

* Senior, *Political Economy*, p. 151. See also *ibid.* for quotations from the evidence of McCulloch before the Committee on Artisans and Machinery, p. 144 *et seq.*

tinguished from the daily wage of the laborer is approximately the same in all countries. The evidence on which Senior and Lord Brassey rely for this doctrine of indifference is drawn mainly from manual labor and their theory remains practically true so far as manual labor is concerned. Some of the facts and figures given by Lord Brassey do indeed support the more advanced doctrine of the economy of high wages; but the increased efficiency which followed each extension of the Factory Acts is the real cause of the general acceptance of the modern doctrine. The Factory Acts had been advocated as a moral reform and justified on the ground that welfare, not wealth, should be the great object of government. The economic justification of the Factory Acts probably surprised Lord Shaftesbury as much as it confounded Senior. The abundant economic justification of the principle of the Acts forms a turning point in wages theory. Since then the indifference theory has become the economy of high wages; and the doctrine has been extended to cover all industry, machine industry as well as manual labor in which machinery is not much used. The facts and the assumptions of the theory have been already discussed; but it is necessary to mention one other consideration that is of great importance. The figures which are advanced in proof and illustration compare only labor costs; and labor cost without machinery is a different thing from labor cost with machinery. We must include in the real labor cost of production in machine industry the

cost of the labor-saving machine, that is, the expenses of its working, and the contribution to the sinking fund to replace the machine. Machinery has to a large extent reduced the nominal labor cost, but statistics are lacking to show how far the real and complete labor cost has been reduced. If it takes more capital in the form of machinery to set each worker at work in one country than in another, there may be no ground for saying that the higher wages in the first are counterbalanced by the greater productivity of labor. The larger output cannot be a measure of the greater efficiency when the amount of capital required to produce $100 of product is increased. Brentano, however, regards the Report of the German Iron Inquiry Commission (1879) as halting, because "the increased capacity of production is not stated to be the exclusive cause of the increase in the average output of the individual workman." *

The advocates of the economy of high wages are not all ready to go so far as Brentano. He even declares that the policy of Lancashire cotton spinners and weavers in demanding factory legislation for Bombay is suicidal; because the only reasonable hope Lancashire can have of overcoming her disability of distance, alike from the cotton-fields and from a large portion of her market, is in the economy of high wages and in the greater efficiency which has resulted in England from factory legislation. This is an extreme position which is not often taken. It is generally recognized that in some countries cheaply paid

* Brentano, *Hours, Wages, and Production*, p. 16.

labor is really cheap labor. These countries are not, it is true, the industrially developed, and the exception might be neglected were it not that the exception is claimed to exist within the United States. There has of late been a good deal of discussion regarding the removal of the textile industries to the South; and the organs of the manufacturer allege that the movement is away from the trade-union and factory legislation sphere to regions where help is cheap, really cheap as well as nominally cheap. To the contention that the Southern help is less efficient, they reply that it is not correspondingly less efficient than the higher-paid Northern help.

"The other argument by which this legislation is defended is . . . that the average factory labor in Massachusetts and New England is more intelligent than in other sections of the country, the South particularly, and can accomplish more and better results in shorter hours. As between reasonable and unreasonable hours there is validity to this argument; but as between fifty-eight and sixty hours a week it has no validity whatever. What we have just said relative to the speed of machinery is a complete answer (*see above, p.* 93). The statement about the relative intelligence and skill of New England operatives is not seriously put forth by persons familiar with the present status of factory labor in the East. The bulk of that labor is foreign-born; its average intelligence is not higher than the average intelligence of similar labor in other States, nor so high as that in many other sections of the country." *

* *Bulletin of the National Association of Wool Manufacturers*, pp. 268, 269.

There is therefore more to be said for the indifference theory or even for the economy of low wages than is generally admitted. The economy of high wages must be relative to many conditions: to the existing standard of comfort and the possibility of raising it; to the effect of a rise in the standard of life on efficiency; to the existent skill and intelligence of the workers; and to the extent to which machinery is employed.

The extreme to which Brentano has carried the doctrine is all the more remarkable that he has himself suggested the possibility of reconciling these diverse views, whether regarded as historically successive views, or as presently opposed opinions. He admits that the economy of low wages is true not only of the seventeenth- and eighteenth-century workers whom Child and Petty and other writers had before their minds when they wrote, and of workers in the East, but also of laborers in the backward country districts of Germany; but for all countries and districts which have come under the influence of competition and progressive ideas the economy of high wages is the law. The reason for this distinction is the difference in the attitude of the men towards industry. The eighteenth-century workers lived and worked under the influence of custom and tradition. This is true also of the worker in backward countries and districts. His standard of life and his standard of efficiency are alike determined for him. To raise his wages would have no effect on his efficiency unless it were for the time

being to lower it. To attempt to raise the standard of his efficiency is to attempt the impossible. But the worker of the present day is, to a very large degree, influenced by the economic motive; and the economy of high wages is the consequence. The change from an economy of low wages to an economy of high wages was brought about by the economic awakening of the worker. This awakening may be due either to migration, to new industrial conditions, or to a change of the conditions in which the worker lives. Brentano quotes Doctor Johnson with approval: "Established custom is not easily broken till some great event shakes the whole system of things and life seems to recommence on new principles." The influence of migration on labor we consider later, but the same result may be effected in the history of a people by industrial changes as are effected in the history of an individual by migration or emigration. The introduction of the factory system made this change, first in England, and then in America, and then on the continent of Europe. It created competition among the producers. The old system of autonomous production for a local market gave little motive for exertion. When, however, large amounts of capital were sunk in buildings and machinery, the employer, anxious for the largest profit, and hating to see his capital idle, drove his workmen, with the result of the hideous excesses which it was necessary to call in legislation to remove and to prevent. When one avenue was closed, the employers sought another. They could not

lengthen the working day, so they endeavored to increase the intensity of working and in their anxiety for profit offered inducements to labor to exert itself. Labor could be induced to do what legislation forbade it should be compelled and driven to do. A powerful new motive came into existence. The laborer could be induced to exert himself by an appeal to his self-interest, and the economy of high wages became an industrial fact.

Reference has already been made, in discussing the two earlier theories, to the attempts made, in various ways, to secure some necessary dynamic principle; and throughout the whole treatment of problems of distribution there is an evident search for some determinant quantity by reference to which we may determine the other shares of the product. The distribution of the product of industry—the National Dividend—seems in practice so definite and, notwithstanding strikes and kindred social (and unsocial) phenomena, so deliberately certain that it seems almost a foregone conclusion that there should be some single principle discoverable, in virtue of which this precision exists. When, however, we set ourselves to judge between three or four actual claimants for the product, the problem becomes perplexing and, apparently, in principle, insoluble, unless we can apportion to one or other, or more than one, of the claimants a definite share as by necessity. We, therefore, naturally look for some given quantity or quantities which will enable us to solve the remainder of our problem. The mathe-

matical method, however valuable it may be for illustration and exposition, is not quite applicable, because here we are dealing, not with rigid quantities, but with human forces. Economists in their treatment of distribution have generally anticipated, or adopted, the spirit and the purpose of Mill's *Logic* and applied the methods of physical science to their investigation of the social problems of distribution. The Method of Residues seems to lend itself most readily to the accomplishment of this particular purpose; and various attempts have been made to demonstrate that some particular share in distribution is residual, *i. e.*, that the product, deduction being made of certain fixed payments, belongs, by necessity and by right, to one or other of the claimants. Physical methods are more or less inadequate to deal with human facts and forces and the result of their use has generally been to give to some element an unnatural rigidity. We have need in economics, as well as in metaphysics, of the Kantian category of reciprocity.

The best-known, and most generally accepted, application of the Method of Residues in economic science is found in the classical theory of rent. Rent is the surplus of the product remaining after the expenses of production, that is, the wages and the profits, have been deducted. Land on the margin of cultivation pays no rent because it yields no surplus, no residue after the expenses of production have been met. There is a strong tendency, at present, to extend the area of the conception of rent

and apply the term not only to the residue of the total product, but also by analogy to any returns to labor and capital which exceed the normal return to such labor and capital. The validity of residual process, in the original case of rent, depends obviously on the truth of the assumption that the returns to capital and labor are fixed quantities. If these are variable—and the extension of the conception of economic rent or surplus seems to indicate that they are variable in some degree—the perplexities of the problem of distribution are resolved only in name, and the residual nature of Rent is purely formal. To Ricardo, it was an easy conclusion that Rent was a residual share. Notwithstanding his distinction between natural and market wages and his concession that market wages might remain constantly and for an indefinite period above the natural rate, when he turned to the consideration of the other shares of the product he seemed to think of natural wages alone, which were fixed at the amount "necessary to enable the laborers, one with another, to subsist and to perpetuate their race, without either increase or diminution." Profits, however, are not regarded as quite so definitely determined. The theory of profits and interest had not in Ricardo's hands assumed the neat concise form it received from later economists. Ricardo had failed consistently to state a distinction, which he sometimes recognized, between the gross amount of profits and profits per cent.; and the result was a reckless use of the proposition that wages could rise only at the

expense of profits. Later writers developed more clearly the notion of a necessary rate of profits. A certain rate of profit was necessary to call out an effective desire to accumulate in the requisite degree. But we can hardly say that Ricardo put forward a natural rate of profits as he had put forward a natural rate of wages. Rather did he consider inconsistently profits as also being a residual share. Wages could rise only at the expense of profit. Consequently we do not look to Ricardo for the standard exposition of the Ricardian theory of rent. In his exposition, rent was a surplus remaining over after one determinate and one indeterminate share had been paid out of the product.

The neat formula of Rent as equivalent to the product minus the expenses of production—$R = (P - E)$—was not presented by economists till the rise of the class of simple investors, who required a fixed rate of interest as a reward for abstinence, to induce them to postpone immediate enjoyment to the necessary extent, had made it possible to regard profits, definitely and consistently, as a fixed share. The Ricardian doctrine of fixed wages had, in the meantime, been abandoned, but its place was taken by the Wages-Fund Theory, which made wages as definite and determinate as they were under Ricardo's theory. Profits were thus a determinate amount and wages were a determinate amount and the residual nature of rent was thus neatly established. While the Wages-Fund Theory was maintained, this was the current theory of distribution.

It was based on the two assumptions that profits tended to a minimum (fixed at the rate necessary to call forth the requisite degree of abstinence) and the determination of the wages fund by the intention of the capital. The theory was not firmly established before its stability was threatened. Mill modified the assumption of the tendency of profits to an equality. His "instability of unequal profits" does not afford the same stable basis for the theory of rent; but the residual character was maintained until the Wages-Fund Theory was abandoned, and is, indeed, still maintained.

The residual nature of profits, which does not, to the ordinary business mind, seem to require demonstration, has, except in Ricardo's half-hearted fashion, hardly been put forward; but the residual character of the reward of labor is part of the current modern theory of distribution. Professor Walker, after demonstrating that wages are not paid out of a pre-accumulated fund, but out of the product, declares that wages, in a very real sense, are not paid out at all, but are what remains over after certain fixed charges, rents, profits, and interest, have been met. Rent is determined by the margin of cultivation, the lands which yield no rent; and profits and interest are similarly and analogously determined by the margin which just gives a return sufficient to cover expenditure.

The development of a residual theory of wages was a natural outcome of the attitude of economists towards economic history. They persisted in seeing

in the past only a series of ready-made illustrations of the theories of the present; and when such illustrations were harder to find than usual, or not so clearly illustrative of the theory in hand as might be desired, they did not hesitate to invent a purely fictitious economic history and treat it as sober fact. They always assumed that the principles which govern men's conduct at our present stage of industrial development are but more complicated forms of the principles which governed the primitive man; and regarded it as at once a necessity and a virtue to turn to the early instances to bring these principles into clear relief. The hired laborer who receives, at the hand of another, a derivative, not an original, share of the product is, from this point of view, regarded as in the same position as the original autonomous producer who was the final owner of all the fruits of his labor and exertion. Adam Smith, although he did not in terms commit himself to this view of history, apparently lends to it the sanction of his authority:

"The produce of labor constitutes the natural recompense or wages of labor. In that original state of things which precedes both the appropriation of land and the accumulation of stock the whole produce of the labor belongs to the laborer. He has neither landlord nor master to share with him." *

Here we have the basis of the residual theory and

* *Wealth of Nations*, p. 27. See Mr. Cannan's *Production and Distribution*, pp. 200, 201.

a reason for rejecting a theory of wages which finds the measure of wages in the intention of the employer. What we have really to explain is not why the laborer receives wages, but why the whole of the product of industry does not belong to him. The explanation is that as industry develops, the laborer comes to require more and more the co-operation of agents of production which are not in his possession; and for the help of these he is compelled to pay. The price he pays for their co-operation must be deducted from the resultant product before we have the actual, as distinguished from the natural, recompense or wages of labor.

Adam Smith's suggestion that wages might be regarded as the residual share of the product was not developed by his immediate successors; but it has been taken up and amplified as the basis of the modern theory of wages. This revival of a neglected doctrine is partly due to the growth of democracy and the consequent tendency to exaggerate the independence and supremacy of the working classes in the labor market; but, mainly, to the recognition of the fact that it is necessary to give determining power to the principle of which the law of wages is the expression. The early theories endeavored to do so directly. The Subsistence Theory provides a minimum below which wages cannot fall, and the Wages-Fund Theory treats the supply of labor and the demand for labor as definite quantities fixed by extraneous forces, irrespective and independent of each other. Professor Walker approaches the prob-

lem in a more roundabout way. He was practically debarred by his polemic against the methods of the Wages-Fund Theory from attempting a direct solution; and he, therefore, tried to show, not that the share of labor was determinate, but that the other shares taken from the given product were. Thus, by the method of residues, the end at which the earlier theories had aimed is reached. The share of labor is determined and the result can be set forth in a neat but unconvincing formula which has provoked Mr. Gunton's sarcastic definition of the small boy's catch, as all the fish in the sea minus those he didn't catch. The value of a residual theory depends on a demonstration of the strictness of the determination of the other shares; and this demonstration no one can imagine that Professor Walker has provided. In other chapters we find him a (developed) Ricardian of the Ricardians determining rent as a residual share, and profits as a residual share, and interest as a residual share. So when we find that wages also are determined as a residual share we can hardly avoid the inference that we are travelling in a vicious circle, not of a very great diameter.

The Productivity Theory is held by many writers who do not adopt it in its residual character. These writers are mainly concerned with the practical applications of the theory, in the discussion of tariff reform, and of the reduction of the hours of labor; and for their purposes the residual nature of the share of the product which goes to labor is probably

better left in the background. No useful purpose, at any rate, could be served by treating the share of labor as residual.

Apart from the practical applications, it was almost inevitable that an effort should be made to show that wages was the residual share. The final test of a theory of wages is held to be the dynamic force of the determining principle, and directly, the productivity theory does not provide such a principle. The total product of industry cannot, in any intelligible sense, provide a measure of wages because the whole cannot be a measure of the part. That out of a larger product larger wages can be paid and out of a smaller product lower wages is not even a statement of a formal truth and may be a statement that is untrue. In the language of formal logic, a definition of wages must consist of a statement of a genus and a difference. Where the genus is indisputably established we still require the statement of the difference. The theory of wages ought to state the differentiating principle which separates the part from the whole of which it is a part. The Productivity Theory, at the first, and in many expositions to the very last, is merely a statement of the genus, and omits all reference to the difference as something of comparatively little importance. While the new theory was merely a polemic against the Wages-Fund Theory, which was essentially a theory of the source from which wages are paid, it was sufficient to prove that wages were paid from another source. But the wages fund was determinate and

predetermined, while the new source is also the source from which Rent and Profits and Interest are paid. The triumph of the new theory brought prominently forward the question of the measure of wages. The treatment of the subject at Professor Walker's hands indicates the progress towards the recognition of this necessity. *The Wages Question* contains no hint of the residual character of the share that goes to labor. Space and attention are devoted to the criticism of the Wages-Fund Theory. In his *Political Economy*, the Wages-Fund Theory, and the polemic against it, are relegated to what is practically an appendix, while the residual nature of the laborer's share of the product is fully set forth.

The method of residues was employed to accomplish indirectly what other theories had professed to do directly; but the final result, in both cases, is practically the same. The share of the profit which goes to labor cannot be shown either directly or indirectly to be a determined amount, and the destructive criticism to which each successive attempt has been subjected leads us to the conclusion that the need for absolute determination in the theory of wages is illusory. The necessity seems to arise from the fact that the actual shares of the product are distinctly determinate; but it does not follow that these shares are predetermined by action of any one principle. Indeed, a review of the phenomena of distribution shows us that there is no definite law, in accordance with which just so much, and no more, is assigned to any one of the claimants. The

shares are mutually determined and determining, and the result of this process can be known only *ex post facto*. There is no inherent necessity that the share of labor should be what it is; and it is what it is in virtue not only of the strength of labor but also of the strength or weakness of the rival claimants. We must get rid altogether of the idea that there is an economic force which allots absolutely any share of the product, even the smallest, to any of the claimants. There is no absolute minimum and no absolute maximum for any share; and the amount at which the share is finally fixed is determined by a combination of forces.

There is something superficially attractive in the idea on which the Productivity Theory is ultimately based, that each factor that has been employed in production should obtain as a return what it has contributed; but the process of determining what each has contributed is neither so easy nor so conclusive in its results as this suggestion makes it appear. Before the problem of discovering the contribution made by each factor can even be approached we must settle what the nature of the contribution made by each factor is. Is it a physical contribution or an economic contribution on account of which the return is to be made ? The physical contribution of each factor is no doubt determinate, and might, by analysis, be determined; but it is obvious that the physical contribution made to the product is neither explanation nor justification of the actual remuneration received, and cannot be treated as such unless

we assume that the whole system of society is a monstrous iniquity. There are factors in the physical process of production which are necessary and indispensable (and, as Mill reminds us, there are no degrees of indispensability) which yet receive absolutely no share, even the smallest, of the product. The contribution to the process of production made by what we call the free gifts of nature is as real and as distinct and determinable as the contribution made by labor or by capital, but no share of the product is allotted to them; and indeed it seems ridiculous to speak of a share of the product in this connection. In the degree in which any agent of production approximates to the character of a free gift of nature, however necessary it may be, and may continue to be, to production, does its share in the product decline. It may continue as important as before, and it is even possible, as it comes more to resemble a free gift of nature, that its physical contribution may increase; but its reward will diminish at least relatively. If the supply of labor should be increased enormously we might find that many operations, previously performed by machinery, could be more profitably performed by hand (the converse case is a matter of common industrial experience). The physical contribution of labor to the product would thus be augmented; but while the total reward of labor might be increased the marginal reward would certainly decrease. The accumulation of capital, again, might be so rapid and so enormous that the rate of interest might fall

almost to zero; but the application of capital in production would increase rather than diminish. The skill and general mental qualities necessary for successful management might, by the spread of education, become very common; but management would be no less indispensable and might even be employed to a greater extent in production than it is at present; yet the wages of superintendence would fall off as they have done, according to Mrs. Sidney Webb, in the textile factories of Lancashire. Thus, even supposing it was an easier matter than it is to determine the physical contribution made by each agent to the product, we are evidently not very far advanced on our way to determine, according to this principle of justice (which makes all the present organization of society a monstrous injustice) what share of the product should be allotted to each agent.

The product of industry, moreover, is not the result of the several factors, but of the combination and co-operation of the factors. Outside of the combination, and apart from the co-operation, of the various factors, the product of industry would be very small. The factors working separately, and in isolation (and separately and in isolation some of them could not work at all), would only be able to turn out a product beggarly in comparison with the share of the product they actually receive from the results of co-operation. Capital is, at the best, only a passive instrument of production: without labor and opportunity it can produce nothing; and

the socialists clamor, in virtue of this principle of justice, that it should receive nothing. The earth might yield her increase without labor and without capital, but the amount would be very small and the quality would soon deteriorate. Labor, the peculiarly active agent in production, would indeed produce something; but the progress of industry has been due to an increasing co-operation of labor and capital, and other agents of production; and the greater the co-operation the larger the product. We cannot, therefore, find the contribution of any given agent by comparing the amount of the product when it is present and the amount of the product when it is absent and calling the difference between them the contribution of the given factor. By this method we should obtain some rather astonishing results. If labor, in the absence of capital, could produce only one half, or one third, of what is produced to-day when labor and capital co-operate, fifty per cent. or sixty-six per cent. would, on this method, be assignable to capital. But, on the other hand, if labor were absent capital could produce nothing whatsoever, and consequently one hundred per cent. of the present product belongs to labor. Then, if we were to reverse the process, and add together the several shares assigned to the various factors, after this method of subtraction had been carried out, we might find, as we pleased, either that the product had been assigned many times over, or that the larger part of it had not been assigned at all. It is sufficiently obvious that we cannot deter-

mine the contribution of any factor to the product by this indirect method of subtraction.*

The sum of the whole matter is that we ought not to transfer to distribution the ideas which are necessary in production. The mere fact that an agent is employed in the processes of production affords no reason why a part of the product should be assigned to it, as the case of the free gifts of nature is sufficient to prove. An analogy will make the point clear. Physical laws and physical conditions must be present before a man can be pushed over a precipice; but we have no blame for the law of gravitation, or for the geological forces which shaped the formations of the district. We do not hold them responsible, but reserve our blame for the human agent who may, to the sum total of physical causes and conditions, have made the smallest physical contribution. As in the moral distribution of responsibility and blame so in the economic distribution of the product. Mere physical contribution to the result is a matter of no importance whatever. In the distribution of the product no share at all will be assigned unless the factor is, so to speak, able to make a claim and able to make its claim good in some way or other. The claim must be supported by a threat, and the power to carry out the threat is the sole measure of the share which the

* This method has been unhesitatingly employed, with results most irritating to the friends and champions of labor, by Mr. Malloch throughout his brilliant essay, *Labor and the Popular Welfare*, and the futility of the method is the underlying fallacy of the book.

other claimants will allow to pass into the possession of the first claimant. The threat which can be used with effect is to withdraw the agent from the co-operation, and if the agent were a unit the power to make the threat good would cause the transfer to that agent of the difference between the product with its co-operation and the product without its help. But no agent is a unit and, although the agent, as a whole, is indispensable, the whole may be so great that no particular unit of that agent can, with any hope, claim to be indispensable. If the agent is available in such quantity that there need be no shadow of fear that the supply of it will not be sufficient to meet the demand, or, in other words, if the supply of the agent is so great that the other agents need have no fear of being deprived of its co-operation, no attention will be paid to the claim. The free gifts of nature, precisely on this account, receive no share of the profit. When there is any means of limiting them, they are appropriated and their claims are enforced by the threat to withdraw the supply of that agent from co-operation with the other agents.

There is no right inherent in any agent why its claims should be allowed: its claims are admitted by the rival claimants only because they are forced to admit them. Should they be able to make better terms for themselves, by encouraging, so to speak, some substitute for a particular agent of production, that encouragement will be given. In the main, it is true that the contribution rendered by the agent

can be rendered by that agent alone; but between labor and capital there is some possibility of substitution. When the wages of labor are high there is a decided impetus, as, for instance, in the United States, given to the introduction of labor-saving machinery. It is cheaper to employ machinery than labor because the claim made on behalf of the capital embodied in it is lower than the claims made on behalf of the labor it tends to displace. The claims of labor will therefore be disregarded to the extent to which they are in excess of the claims of the capital which may replace it, and the value of labor will be determined, not by the claims which are made by and allowed to the marginal laborer, but by the claims which are made by and allowed to the marginal substitute for labor. This process of substitution has not resulted in reducing the claims allowed to labor, though it has possibly checked their advance, because in the long run, machinery has not over the whole field of labor caused a diminution of the demand for labor.

The claim which may be allowed to any agent of production may be large, not because it has exceptional power to enforce its threat to "strike," but because the power which the other agents have to enforce their claims is relatively weaker. In the contest, or competition, for the product a larger share may go to capital because labor is disorganized and to labor because improved communication has made new land and natural resources available. When the margin of the profitable application of

any agent extends, all the agents or claimants will gain, but the agent whose conditions have changed will gain the least by the change. Its relative reward will decrease and its absolute reward will not increase in the same proportion as the absolute reward of the other agents; and the reason is that owing to the increase of the supply the power of making its threat good has been impaired.

The definite shares of the product which are allotted to the various claimants are not determined by the inherent right of one, or other, of them to a precise amount, but by the comparative strength of the various claimants. The shares are, therefore, mutually determined and determining; and we may therefore give up the search after some definite principle, or principles, which, directly, or indirectly by the method of residues, would predetermine the share of any one of them; for the position of any claimant may improve, or become worse, without any alteration in itself, merely by an alteration in the relative strength of another claimant.

CHAPTER IV.

THE BARGAIN THEORY OF WAGES.

THE mistaken quest for a principle which, singly, shall have determining power has generally led to an extreme and one-sided statement of the principle. It has been stretched to explain all the phenomena of wages; and it has been an easy task for the critics to show that it is not sufficient to cover the whole ground. Many facts have to be accommodated to the theory and others left completely unexplained and unexplainable. As long as the critic confines himself to his criticism, his course is clear and his argument unanswerable; but when, in the triumph of his destructive criticism, he becomes confident enough to state his own theory, the tables are turned, and the new, or revived, theory is easily shown to be open, if not to similar, yet to equally weighty objections. No theory seems strong enough to meet the objections which are raised against it; because no theory is adequate for the explanation of all the facts. The reason for this universal breakdown is that the criticism is, in the

main, merely destructive. A principle is shown to be inadequate to account for the determination of wages under certain circumstances and is, therefore, promptly rejected *in toto;* and a new theory is put forward to explain what the rejected theory had not explained. But the new theory is generally found to be inadequate to explain what the old had explained.

The consequences of the doctrine of evolution have not yet, in spite of the adoption of its phraseology, been fully realized by economists, or we should have less of this purely destructive criticism and hasty and contradictory construction. No theory which has obtained the approval of a large number of investigators of industrial phenomena, and kept it for any length of time, can be totally devoid of foundation. It may not express the whole truth, but it must present some sort of explanation of large groups of facts, and no polemical fervor can justify the total rejection of a theory which presents some part of the truth of the industrial situation. This destructive criticism has been inspired by the notion that the principle must explain all the facts or none at all; but when we get rid of the idea of the, necessarily, absolute determining power of a single principle, the way is open to us to recognize the measure of truth and explanation contained in each of the three principal theories that have been advanced, and to construct a theory which shall give due place to the element of truth which each has been shown to contain.

The errors of the theories, considered in the first three chapters, have arisen from making a solution of a part of the problem do duty for the solution of the whole; and the remedy consists not in indiscriminate criticism and rejection, but in giving each theory its proper place. The subsistence theory is, in the main, a theory of the supply price of labor—in its earlier and later forms a theory of the necessary supply price determined by the cost of production (variously interpreted)—in its usual modern form, almost, it might be said, a theory of market-supply price or, at any rate, of the variations of the market-supply price *above* the necessary supply price. It errs, on the one hand, as a cost of production theory is bound to err, in neglecting the question of a possible demand price, and, on the other hand, in interpreting the supply price of labor too narrowly. It assumes throughout that labor is a commodity with pretty much the same characteristics as other commodities which are bought and sold; and, therefore, except in the vaguer form of the principle as the standard of comfort, it is forced to neglect the fact that the supply price of labor is not determined extraneously, but is largely self-determined. The supply price of labor is not determined, solely, by the amount of the necessaries, comforts, and luxuries which are necessary, from physiological causes or from custom and habit, to support the laborer. These, as we shall see later, form the principal element in the supply price, but they do not constitute the whole of it; nor is any sufficient reason suggested

in the theory why they should form even part. The supply price of labor is not a price determined by forces over which the laborer has not full control: it is simply an estimate which the laborer forms of what he (not necessarily his work) is worth; and many elements enter into it, besides food and clothing and shelter and even recreation. The supply price is not a minimum below which wages cannot fall, or a maximum beyond which they cannot rise. It is true that wages cannot easily fall below the standard of subsistence, interpreted in the strictest and narrowest physiological sense, but, owing to the progress of the working classes, this form of the theory has been abandoned. In any other sense, whether industrial or optimistic, the standard of subsistence cannot be regarded as an absolute minimum. The degradation of labor is a melancholy fact of too frequent occurrence in industrial history to permit us to accept the standard of subsistence as an insurmountable barrier. A man can live on less, and he may be forced by the fluctuation of industry for the time being to accept less, than will secure for him that amount of the necessaries, comforts, and luxuries of life which he naturally thinks, or has come to think, as his due. The supply price of labor is simply an estimate by which the laborer is prepared to stand and for which he is, if need be, prepared to fight. But the greatest omission in the theory is the neglect of the question of the demand price of labor. If we could accept without qualification the cost of production theory of value, the

omission would not be serious; for, according to this theory, fluctuations apart, all values are determined by supply; but "cost of production" was shorn of much of its significance by Mill, and relegated to the background, where, unless when brought forward to be definitely repudiated, it has remained. If labor is a commodity, it has not only a supply price but a demand price; and the modern theory of wages practically anticipated those theories of value which find that value is determined by utility, in considering only the question of the demand price.

In the standard of subsistence theory, as well as in the productivity of labor theory, too much stress is laid on the alleged fact of concomitant variation. This concomitant variation of wages with the cost of living, on the one hand, and with the efficiency of labor on the other, we found to be neither so invariable nor so close as was alleged; and yet to be close enough, in both instances, to justify both the theories as approximate explanations of the facts. In the language of formal logic, it might be safe to conclude that the two principles were in effect not so much contrary as subcontrary propositions. At any rate, both of them are in a measure true if neither is pushed to an extreme. Unfortunately the exponents of both theories have pushed them to extremes and, in asserting the truth of their own principle, have imagined that they were proving the falsity of every other. But a theory of the supply price of labor need not be set in antagonism over

against a theory of a demand price. Both may be true and both are necessary for a complete statement. The productivity theory amounts to an unqualified assertion of the demand price of labor as the determinant of wages. It ignores, almost completely, the supply of labor because, optimistically, it considers the question of a supply price irrelevant and unnecessary. The demand price is necessarily higher than the supply price; and the motive which the employer has in paying wages, and the beneficent results for the laborer of the competition of master with master, render the consideration of a possible supply price unnecessary. The demand price is fixed by the estimate which the employer forms of the efficiency of labor, and, as the demand price is higher than any possible supply price, the latter is ignored, except in so far as the supply price of labor, or the most important element in the supply price, food and clothing and shelter, affect the efficiency of the laborer. It is undoubtedly true that in paying wages the employer is influenced by his estimate of what the laborer is worth to him, and this estimate constitutes the demand price of labor. In the case of labor, as in the case of all other commodities, the demand price is generally higher than the supply price. This arises not, as in ordinary exchange, from the low marginal utility of that with which the seller parts, but from the necessities of the laborer. But, although the demand price is generally the higher, or, to be more accurate, although the demand estimate is generally higher than the supply esti-

mate, it does not follow that the supply price is a negligible quantity. The demand price is not fixed and absolute. It certainly, even under the beneficent influence of the competition of master with master, cannot be regarded as a minimum. The motive for paying wages is the hope of a surplus; and the lower wages can be fixed compatible with efficiency the larger the surplus the employer may hope to realize; and there is, therefore, a reason why the employer should seek to pay less than he thinks the labor is worth. The supply price, however, is a practical limit to his powers of reducing wages. To reduce wages down to the supply price and to attempt to lower them further, will destroy the laborer's hopefulness and irritate him into a wild sense of injustice. If the supply price is high the enlightened employer's efforts to reduce wages will soon be checked by the decline in the laborer's efficiency, which depends so much on mental and moral qualities: if the supply price be low, the actual price of labor may be low, not merely because the laborer is less efficient, which he probably is, but because the employer may hope to realize a larger surplus without killing the goose that lays the golden eggs for him. In either case, the supply price of labor is of importance because it is the employer's interest to pay as much less than the labor is worth to him as the laborer will, readily and without irritation, accept.

The Wages-Fund Theory, in a measure, is a reconciliation of these two theories; but the reconcili-

ation is premature. It presents a theory of the demand and the supply of labor, but treats both demand and supply from an impersonal and quasi-objective standpoint. Demand and supply are fixed by what are, so far as the theory of wages is concerned, extraneous forces. Supply is not relative to price, but independent of price, and the causes of the determination of the supply are considered outside the theory. The causes which determine the demand are not so cavalierly dismissed; but the demand is regarded as a quantity and not as relative to a price. The fundamental error of the Wages-Fund Theory consists in treating both supply and demand as fixed quantities. The laborer must work, therefore the supply of labor is absolute. The employer, out of his own intention, fixes the Wages Fund which must be expended, and, therefore, the law of wages is the proportion between demand and supply. But the laborer, though he must work, is not merely passive, and the employer, like other men, forms some estimate of the worth of what he purchases; and, although we may speak of a proportion between fixed and rigid quantities, we cannot speak of the law of wages being the proportion between the demand and supply of labor. Mill's emendation "equation" is better, but all analogies, even mathematical analogies, are misleading. The supply of labor cannot be considered apart from the fact that labor and the laborer are inseparable: the demand for labor arises from the motive which the employer has in paying wages, viz., the realization

of a surplus product, and is not independent of his estimate of what the labor which he purchases is worth. Wages are the result of an equation, if we must use Mill's term, of the supply estimate and the demand estimate, and, if the equation is not established at first, the solution of the problem is reached, as it is reached in all other buying and selling, by bargaining.

The Wages-Fund Theory is, in form at least, the most adequate attempt to resolve the wages question. It recognizes that there are two sides to the equation and devotes considerable attention to the force which establishes the equation. This force it calls competition. Thus it presents the form of a complete theory; and the object of the remainder of this chapter is to fit the material of the Subsistence Theory and of the Productivity Theory to the form of the Wages-Fund Theory.

In the last chapter, we saw in what sense the statement that labor is a commodity is to be understood. Even in the most advanced industrial stages, the buying and selling of labor continues in many respects to exhibit the characteristics of primitive exchange. The difficulty of securing that double coincidence which is necessary for barter does not appear, because labor is in steady demand; and the labor market, though not organized like the money market, is not in a state of chaos. It is not because labor is less mobile than other goods that it retains the characteristics of primitive exchange, but because two separate estimates of utility enter into the de-

termination of the ratio of exchange. In the case of direct and primitive exchange of goods for goods, each of the exchangers has his own estimate both of what he wishes to obtain and of what he parts with in order to obtain it. The primitive exchanger is supposed to compare the marginal utility of the two commodities which are to be exchanged, and the exchange takes place only when the bread or the water or the diamonds with which one parts has a lower marginal utility than the commodity which one gains. But with the organization of industry and the extended application of the principle of the division of labor, the estimate which the exchanger places on the commodity which he offers in exchange becomes of less importance. He has it in superfluity and, even when he could use in his own consumption the commodity he produces, its marginal utility must be almost as low as zero. The producer produces only to exchange and, in the actual exchange, therefore, looks almost exclusively to the utilities of the articles which he seeks to obtain. He may withhold part of his output; but his object in so doing is to obtain a larger amount of the commodity he desires. His motive is never the affection he has for the fruits of his own labor or the direct utilities which the commodities can afford him. The seller's personal estimate has little influence in determining whether the commodity is sold or not. His minimum price is determined solely by the cost of production—what determines the cost of production is not our problem—and his objection to

parting with the commodity below cost does not lie in the fact that he can use it to better advantage—that, even in the having it, there is more utility than can be obtained by parting with it at a sacrifice. This is true, notwithstanding the fact that, directly or indirectly, the commodity is the product of his own labor or sacrifice; not only because under modern conditions this sacrifice of comfort is spread out over a large area owing to the division of labor, but also because it is a thing of the past. The manufacturer who sells the output of his mills does indeed sell the results of his exertions and his abstinence; but, nevertheless, he will not withhold a single hank of yarn or a single yard of cloth from the market because he has exerted his powers of mind and body, or sacrificed his immediate comfort, in fashioning them. Rather will reflection on these past exertions make him the more willing to sell, that they may not go unrewarded. The exertion is over and past; and, though future exertions may be limited because the reward for past exertions is considered inadequate, yet past exertion has little to do with the determination of present price. But the less remote the exertion and the less the extent to which the division of labor is carried in production, the more will the seller's sense of the exertions he has put forth and the sacrifices he has undergone, affect his readiness to sell at any price. An artist, in so far as he is animated by the commercial motive, is more likely, other things being the same, to hold his picture for an adequate price than the weaver

his cloth. The artist has completed the whole operation and has in his hands at one time the completed result of his exertions. The work that he has fashioned is more to him than the yarn is to the master spinner; though the painter, too, will part with the picture at what he considers an inadequate price rather than have it left on his hands. The laborer, however, is still nearer to his labor which he sells than the artist is to his picture. He has but little interest in the product which he is engaged in making. He has already contracted himself out of all claim on it. What he parts with is really not the fruits of past exertion, but the right to use his labor. All the time that the exchange is being effected, he is continuously conscious of his personal interest in what he sells. Since all labor involves disutility, we can never speak of the laborer parting with that which has a low marginal utility to obtain that which has a high marginal utility. Directly the power to labor may be of little use to the laborer, but the disutility of labor remains great. Were the laborer able to take a purely objective view of what he sells, the price of labor might be determined as the price of all other commodities is, almost entirely from the side of demand; but the memory, or the anticipation, of the disutilities of exertion is too strong to permit him to take an impersonal view and, consequently, he will insist more strongly than either the manufacturer, or the artist, on obtaining an equivalent for the inconveniences he has incurred or is likely to incur. All that a man hath

will he give for his life, and the laborer's necessities may be so great that he estimates the disutilities of labor as nothing compared with the utilities he desires; yet, however highly he estimates the utilities of the reward and however indifferent he may therefore be to the disutilities of labor, he will not work unless the utilities are, at least, an equivalent in satisfaction to the disutilities incurred.

Labor, on this account, remains a thing apart. It has inevitably, perhaps fortunately, but certainly inevitably, lagged behind in the process of the simplification of exchange, which has gone so far in the case of other commodities as practically to eliminate the seller's estimate from the bargain. From the buyer's point of view labor has not lagged much behind. In primitive exchange the decision to buy or to sell depends on whether the indirect utilities, what by the Austrian economists is called the subjective exchange value, exceed the direct utilities or not. Under modern industrial conditions, the direct utilities are of comparatively little importance compared with the indirect. The buyer of labor must postpone the consumption of some portion of that share of the real income of society which has fallen to him; but since he buys labor, not for immediate gratification, but to produce and to make money, the utility which he sacrifices does not weigh much with him. He fixes his attention far more on the commodities he seeks to obtain by help of the labor he hires than on the utilities he hands over to the laborer in exchange; although the direct

utilities are not without influence on the estimate he forms of what the labor is worth to him.

The price of labor is determined somewhere between two estimates placed upon it—the estimate of the employer and the estimate of the laborer. The estimate of the laborer is the resultant of two factors—one positive and one negative—the utility of the reward and the disutility of the labor; and the estimate of the employer is on the whole dependent on the indirect utilities afforded by what he purchases, or rather by the discounted value of the product created by the laborer's exertions. Should the laborer place too high an estimate upon what he offers to sell, or the employer too low an estimate on what he wishes to buy, no exchange will be effected; but, in general, the necessities of the laborer and the motives of the employer prevent any such difficulty from arising. The pressure of the laborer's necessities is such that the reward which the employer offers is generally sufficient to cover the disutility of labor.

Between these two estimates the value of labor is determined by the forces by which all exchanges are effected. These two estimates are a maximum and a minimum. The buyer is neither anxious nor willing to offer as much as his estimate. On the contrary, he naturally desires to obtain what he wishes as much as possible below his estimate of what it is worth to him. His motive in buying labor is to obtain the surplus of the price which the product realizes over the advances he has to make to obtain

it; and the smaller the advances he has to make the greater the surplus which remains in his possession. His estimate of what labor is worth is a maximum beyond which he can, only with the greatest difficulty, be forced to go. The difficulty arises from the opposition which the other claimants to a share in the product will offer to any disturbance of the balance which has already been established. Should he be forced to offer more than he can, consistently with this balance of claims (including his own), he will have to face the necessity of establishing a new balance unless he is content to see his own share shrink without a protest. Up to his estimate the employer can freely offer, but the less he can force, or induce, the laborer to accept, the larger his own share.

The laborer, on his side, does not regard his estimate as a maximum. On the contrary, even should he be successful in extracting from the employer the full measure of the employer's estimate, it does not follow that he is quite satisfied. He has expended energy which it requires food and clothing and shelter to replace: he has occupied a position of dependence and restraint, for the irksomeness of which he insists on such a compensation in satisfaction, or the means of satisfaction, as will make him feel his own master during his leisure hours: he has suffered from the monotony of work, in which he has little immediate, and no ultimate interest, and his nature demands variety and recreation; but the equivalent in satisfaction which he feels he has a right to de-

mand for these disutilities does not, as a rule, meet all the wants in his scale. The laborer, except perhaps in the lowest grades of society, has a great variety of wants and will naturally seek to satisfy as many of them as possible. Since his single source of satisfaction is the wages he receives, he will therefore endeavor to get as high a price for his labor as he can. Thus, though he enters the labor market with a definite estimate of what he is worth, his estimate is a minimum only.

The value of labor will generally be determined neither at the one estimate nor at the other, but somewhere between the two estimates, in a kind of debatable ground, as it were. The practical wages problem is the delimitation of the frontiers of the respective territories of Capital and Labor. What the result is of the dispute for this territory depends on circumstances. Each strives to engross the whole of the disputed territory and probably neither could be wholly successful. The issue depends on the relative strength of the contestants —on the weakness of one as much as on the strength of the other; and the issue cannot therefore be determined beforehand. We have here a failure of the equation of exchange. We can say only that wages will be determined somewhere between the limits by the comparative strength and knowledge of the bargainers. The limits are not absolutely fixed; but, within the undisputed and permanent frontiers, each is comparatively free from the danger of aggression, not perhaps on account of a recognition of his rights

within these limits but on account of the special fierceness of the resistance to aggression. The employer will find great difficulty in forcing the laborer to accept less than he thinks he is worth; and the laborer will find social and economic forces of great strength arrayed against him should he attempt to exact more than his labor is really worth to his employer. But the distribution of the margin between the two estimates can never be regarded as final. A position may be occupied by labor in one year from which, in the next, it may be forced to retire; and the outposts of the employer may, at times, be thrown farther forward than they can be permanently maintained. Should the strength of one party be considerably greater than the strength of the other, from whatever cause, the larger part of the debatable ground may pass into the hands of that party; and when the strength of the two parties is nearly equal, the debatable land will be nearly equally divided between them; but no arrangement is final. It is probable that, owing to various causes, the limits claimed by, and allowed to, labor are being steadily pushed forward year by year; but the laborer is probably still far from absorbing the whole of the debatable ground because, as we shall see, and as we have seen, though the fact was otherwise expressed, the rise of the laborer's estimate renders, through the greater efficiency that generally follows higher wages, possible a rise of the employer's estimate.

It is necessary to consider more fully the nature

of these two estimates between which, as limits, actual wages are determined and to discuss the factors which strengthen or weaken the position of the laborer, or the employer, as a bargainer. Some of these elements and factors are of so great importance that the discussion of them must be deferred, and, in the remainder of this chapter, the less important only are considered, though the place of the more important is indicated.

The laborer's estimate must not be taken as merely the equivalent of his standard of subsistence, however broadly this conception may be interpreted. The standard of subsistence is not even an adequate objective representation of the laborer's estimate of his labor, for this includes, both the utility of the reward and the disutility of the labor. The utilities afforded by the reward may, through the necessities of the laborer's position, be so intensified that the sum of them may the more quickly counterbalance the disutilities of labor. The laborer's estimate is simply his demand that in the reward he may find a sufficient recompense for the various discomforts and inconveniences he incurs in working, and in working at the bidding of another. If the disutilities of labor diminish, owing to shorter hours, or better sanitary conditions, for instance, the laborer might be ready to accept a lower reward because the necessary recompense need not be so great; though this event is hardly likely to occur. He might also, come to estimate the utilities of the reward more highly owing to a general intensification of his wants,

or, owing to the greater cheapness of consumption goods, he may find the equation of utility and disutility in a smaller wage. The social and industrial tendency is, however, in the opposite direction. The equation is found in a higher wage; for the disutility of labor is probably increasing while, owing to greater cheapness, the marginal utilities of the commodities which make the reward are decreasing and a larger amount of them is, therefore, necessary to provide the recompense for the disutility incurred.

The standard of comfort represents one element only in the disutility of labor, though that element is, and is likely to remain, the most important element. It corresponds, in a certain measure, with the amount of energy expended in labor and, therefore, affords us an objective measure of the principal constituent of a somewhat shifting conception. It cannot be taken as equivalent to the laborer's estimate for it takes no account of the moral disutilities of labor. We must take into account the effect of work, and especially of work at the bidding of another, on the mind and feelings of the laborer. The feeling of dependence and the sense of the irksomeness of restraint and control do, indeed, make demands on a man's energy, and this expenditure must be made up; but the equivalent of the physical energy expended would not be regarded as a sufficient *præmium affectionis*. The laborer's estimate, undoubtedly, includes this purely subjective element; and, in one sense, the laborer's estimate is individual

and subjective. It is his own estimate of what he is worth in his own eyes, not necessarily of what he is worth to an employer. But his estimate is really no more individual and subjective than he is himself.* His estimate is framed, as his opinions are framed, after the model of the opinions of others. If he lives among men who value themselves and their self-respect highly, his estimate will be high. He will not accept employment which brings social disapprobation except for an additional compensation; and there are some occupations in which he will engage only under compulsion, and to which, under no circumstances, will he allow his children to be apprenticed and trained. What he regards as a degrading occupation he will leave severely to those whose self-respect is less. Consequently, it is not in the most disgusting occupations that the highest wages are paid; but a butcher's assistant will receive more than a grocer's. His estimate is framed, as we said, on the model of the estimate which others have formed, and, more particularly, on the estimate which the employer has formed. If he is worth so much to his employer, his self-respect will not allow him to estimate himself at less. In his employer's estimate, in so far as he knows, or thinks he knows, what that is, he has an assurance of his merits which his own conception alone could not give; and he may accept the employer's estimate so implicitly

* *Cp. Spinoza Ethica*, part iii., prop. 57 et Schol, *Quilibet uniuscuiusque individui affectus ab affectu alterius tantum discrepat quantum essentia unius ab essentia alterius differt.*

that it never occurs to him that his subjective estimate is an adopted one.

Strictly speaking, this estimate is not represented by an amount of commodities but by that amount of commodities which will afford an equation of utility and disutility; and the equation may be disturbed either by intensifying or by reducing the laborer's wants and necessities; or by increasing or by decreasing the disutility of labor. Although, therefore, the laborer's estimate cannot be regarded as an absolute minimum, at any given time, or except in a purely formal sense, it has a determining power. The standard of subsistence, however interpreted, is simply an amount of commodities and there is no reason why the amount of commodities a man has been in the habit of consuming should determine his wages unless it be that the standard of subsistence is simply a rough and ready (but incomplete, though objective) measure of the disutility of labor. In this sense, the standard is a determinant because the disutility of labor must be counterbalanced, and more than counterbalanced, by the utilities which the reward affords. It is not a final determinant, however, even of the minimum wage because circumstances may alter and a new equation be necessary. An established equation, however, is not readily altered, and throughout all changes certain elements remain fairly permanent. The expenditure of physical energy is nearly constant, and the standard of comfort is that amount of utilities normally necessary to meet this constant

element in the disutility of labor. The standard of comfort is, therefore, the most important element in the laborer's estimate and gives to that estimate much of the resisting power which it has. The laborer's estimate is not, except in form, a minimum below which wages cannot fall, but it has great power of enforcing itself. If the equation between utility and disutility is not established, the laborer's sense of fair play is wounded and his work will suffer. His efficiency depends almost as much on his willingness as on his physical strength and dexterity, and the employer who tries to reduce wages in his anxiety to increase his surplus of the product may easily defeat his own ends. The strength of the laborer's position depends greatly on this necessary weakness of the employer for, though theoretically the employer has the laborer at his mercy owing to the necessities of living, practically he dare not push his advantage.

The laborer's estimate is, as we said, an equation of two factors, the disutility of labor and the utility of the reward, both of which are subject to independent variations—though the latter more so than the former.

The disutility of labor is, on the whole, increasing. Many of the disagreeable features of modern industry are preventable and are likely, by an extended application of the principles of the factory acts, to be prevented. It is significant that the worst abuses of modern industry, those which most surely destroy the health and the efficiency of the worker, are most

prevalent in those industries which have lagged behind in the industrial development. The modern parallel to the iniquities of the early factory system is found not in the factory industries but in home industries; and this fact is so notorious that the more advanced of labor advocates propose practically that home industry should be suppressed by law. The improvement of sanitary conditions and the shortening of the hours of labor effected by the factory acts have probably diminished the disutilities by a greater amount than they have been increased by the speeding of machinery and the intensification of work which have accompanied these ameliorations of the conditions of labor; and have perhaps rendered the speeding economically possible.* It is certainly an open question whether the expenditure of energy demanded from the labor in industry is increasing or decreasing; for over against the optimism of those Utopists who, looking forward, see labor, by means of short hours and varied occupations, becoming pleasant and involving no disutility, but perhaps even a positive utility as affording an exercise for our powers, we must place the pessimism of J. S. Mill, who was inclined to doubt whether machinery had lightened human labor.

This uncertainty exists only in reference to the positive disutilities of labor, if the paradoxical phrase may be permitted; for there can be no doubt that the negative disutilities are increasing. These arise out of the dependence of the hired

* Nicholson, *Effects of Machinery on Wages*, p. 48.

laborer on his employer and the widespread feeling that in working at the bidding of another something of the full stature of manhood is lost. This feeling is a wages factor of increasing importance. The socialists have all along denounced vehemently what they call wage slavery; and the ardor of the apostles of "pure," or producer's co-operation,* is inspired by the same idea. The idea that there is something rather degrading in being a wage earner has been fostered by the more zealous advocates of profit sharing, like Mr. Sedley Taylor, who speaks of the "moral gain to the workman in passing from the position of a mere wage earner to that of an associate in profits." † Whatever the attitude of the working classes towards these schemes, there can be no doubt that the negative disutilities of labor are of great importance in the wages question, and that with the spread of education, in the narrower and in the wider sense, and the growth of the political power of the working classes, they will become of more and more importance. The greater the self-respect of the laborer the greater will be his estimate of the disutility of labor, and the higher will the lower limit of wages stand.

The other factor in the equation which gives the lower limit is the utilities afforded by the reward of

* The ideal of Producer's Co-operation is "that the worker shall be elevated to the position of partner and profit sharer instead of being the hired machine of the capitalist and consumer."—Mr. Gray, Secretary of the Co-operation Union, quoted by Schloss, *Industrial Remuneration*, p. 202.

† *Report of Industrial Remuneration Conference*, p. 256.

labor. A given amount of satisfaction may be obtained from the satisfaction of a few wants of great intensity or from a larger number of less intensity. It is possible, therefore, that an intensification of the elementary physical and human wants may induce the individual to find the equation of utility and disutility in a smaller amount of goods. Such an intensification of the elementary wants is of frequent occurrence, and whenever it does occur the laborer will put forth more effort to obtain the satisfaction than he puts forth at other times. The skilled artisan who is compelled to take relief work provided for the unemployed does not value himself the less but the reward the more; and the widowed mother will slave for a pittance to keep her children from starving. In comparison with their necessities they seem to place no value upon their work. On the other hand, the farther a man is from the danger of starvation, the less will be the marginal utility of the reward, and the sooner will he find that the disutility of working exceeds the utility of the reward, and the higher, therefore, the wages which must be offered to induce him to work. Moreover unto him that hath shall be given; and the development of the purely human wants will increase the negative disutilities of labor, making dependence more irksome and the sacrifice of leisure more ungrateful.

The individual laborer is not, necessarily, dependent on his individual estimate. The lower limit which he sets, or would set, for himself is often superseded by an artificial lower limit set by

the industrial condition of the community in which he lives. In new countries, agriculture and the extractive industries set the standard of wages, and the wages in these occupations form a minimum below which the wages in other industries cannot fall. This was one of the first laws of wages to be enunciated, and subsequent observation has corroborated Benjamin Franklin's statement (though not his inference) that "no man who can have a piece of land of his own, sufficient by his labor to subsist his family in plenty, is poor enough to be a manufacturer and work for a master."* His inference that "while there is land enough in America for our people, there can never be manufactures to any amount or value," has been hotly contested by the protectionists and was, in effect, condemned by Adam Smith.† The competition of rival nations in foreign trade has a similar tendency to create such an artificial lower limit in all countries, but the tendency is not so strong in this case because of the greater immobility of labor. In a new country every man thinks he knows enough to be a farmer; and the readiness of access to the land improves the laborer's standing not merely by reducing the supply of hired laborers but also by removing some of the disabilities which might make the laborer, owing to the intensity of his elementary wants, find the equation of utility and disutility in a smaller quantity of commodities. While a man "can have a

* Benjamin Franklin, *Works*, vol. iii., p. 108.

† *Wealth of Nations*, bk. 4, chap. i.

piece of land of his own," the elementary wants are not likely to be much in evidence; and the freedom and independence of the farmer render the dependence of the hired laborer more odious and unwelcome. As the country fills up, the laborer has to depend more on himself and on his own estimate. This does not mean, as Franklin suggests, that wages must fall as the nation becomes industrial. Indeed, the effect is generally in the opposite direction because the development of manufactures creates new wants; and the creation of new wants means that the laborer must receive a larger amount of commodities to establish the equation of utility and disutility. But whether the new natural limit is higher or lower than the old artificial limit, the laborer has now to depend upon himself alone.

The upper limit of wages is the employer's estimate of what the laborer is worth to him; and, since the payment of wages is not an exercise of philanthropy and the employer is driven thereto by no physical necessity, but impelled by a purely economic motive, it is likely to be both more definite and more absolute than the laborer's estimate. It is more definite, because the employer is less liable to be governed by the peculiarities of his personal feelings and more ready to accept the guidance of his fellows who are at least as able to make an estimate as himself and are more animated by the same motive as he is. The laborer has to form his estimate by reference to the somewhat vague

and subjective ideas of utility and disutility while the employer can make use of the "calculation form of utility." It is true that he has to calculate in anticipation the price he can obtain for the fruits of the labor he purchases, and there is thus a possibility of error in his calculations; but given the price, he has to do little more than calculate the efficiency of the individual laborer which he can readily measure. The upper limit is more absolute than the lower, because the employer has a stronger conviction that his estimate is just and accurate; for in this assurance, he will be able to offer a more effective resistance to any attempt to raise wages above this limit.

As already explained, the upper limit is regarded by the employer as a maximum; and if, as must be the case when labor is to be bought and sold, the buyer's estimate is higher than the seller's, the only reason why the employer should pay the maximum is that he can pay it; and this he is not likely to pay until he is forced. But the fact that he can pay up to the limit is an element of weakness in his position as a bargainer; and should, at the same time, the position of the laborer be strong, wages may be forced nearly up to the maximum. There is no other sufficient reason why he should pay out the maximum wage. Competition of master with master is not keen enough to bring about this result; and, besides, the effect of competition is set aside by the tacit or avowed combination of masters to pay as low wages as is compatible with efficiency,

and by the fact that the development of the capitalist régime has created a surplus of irregularly employed labor on which much of the force of the competition between masters for labor is dissipated. In fact, apart from the power which the laborers have of enforcing their demands, there is no reason to suppose that the employer will willingly pay as much as he can. Rather does he endeavor to pay as little as he may; and he respects the laborer's estimate only because of the effect which an outraged sense of justice has on efficiency.

However powerful the laborer is, we may practically regard this upper limit as a final and unsurmountable obstacle to the rise of wages. The employer can pay more to labor only by paying less to the other claimants for a share of the product and this would involve a readjustment: which is a task he is not likely to seek to undertake. He may be forced by necessity, or by the pressure of public opinion, to undertake it; but, since one of these claims is his own, and all are made by men of his own class and standing, it will require a very great pressure. Labor it is natural for him to regard as the agent which should be sacrificed for the integrity of the others; and it would be a reversal of all his class and business preconceptions to think of reducing the shares of the other claimants to increase the share which goes to labor. The wide acceptance of the doctrine of a living wage shows that there is a growing belief that the wages of labor should be regarded as a first charge on the product of industry,

and the meaning of this is that, in the opinion of many, the employer, if necessary, should face the difficulties of readjusting the claims.

If this readjustment cannot be effected, the success of the laborer in raising wages above the employer's estimate would result in a restriction of industry unless there were some way open to the employer to neutralize its effect. There is one obvious way in which he can render a demand ineffectual which he is not strong enough otherwise to resist. The law of substitution * is especially applicable as between capital and labor; and the strength of the laborer's demand may be turned aside by an increased use of fixed capital. Machinery, at least to a very large extent, can be made to do the same work as labor; and labor-saving machinery is most used where, as in America, wages are high. The immediate result of the substitution of capital for labor is to reduce the demand for labor, and, therefore, to weaken the laborer's position; and it is the immediate result only which is of importance in this connection. The law of substitution thus operates frequently to render concession to the demands of labor unnecessary. When the law of substitution is not operative, and there are still many industries in which labor-saving machinery cannot be used instead of labor, a successful demand for wages higher than the employer's limit will restrict industry. For a general readjustment of the distributed shares will occur only when the demand for higher wages

* *Cf.* Marshall, *Principles of Economics*, *passim*.

has been successful over a large area; and success in those industries where the law of substitution is not operative is not enough to force a general readjustment. Accordingly, a demand which requires a readjustment will be neutralized in most industries by the law of substitution and in the others will result in a restriction either of profits or of employment, or ultimately of both.

It may be suggested that where the law of substitution does not protect the employer, there is a certain compensation for the higher wages which will prevent the restriction of industry. The working classes form the great majority of consumers, and their increased spending power may make it profitable to introduce improved processes of production. But unfortunately for the employers who, debarred by the nature of their industry from using the law of substitution in their own defense, have been forced to pay higher wages than they consider they can afford, the increased demand for commodities will probably not affect the industry which they are engaged in before. It is in the highest skilled trades, mainly, where artistic workmanship is required, that machinery cannot be introduced as a substitute for human labor; and the demand of the working classes for the product of these industries is small and is likely, in spite of any possible increase of wages, to remain small. The demand of the working classes is for commodities produced in those industries where the law of substitution is operative. Accordingly, the compensation to the

unfortunate employer who has been forced to pay higher wages than he can afford, is found only in that increased general prosperity which tends to follow from a permanent increase in the demand for the products of any industry or group of industries. The compensation, therefore, if not highly problematic, is at least very indirect.

We may conclude, then, that the employer's estimate is practically a fixed and constant maximum. The attempt to raise wages above this limit will rarely be successful and, in those industries where it may be immediately successful, rejoicings are premature. The endeavor "o'erleaps itself" and restricts employment; and, in a short time, the employer's estimate will be re-established more firmly than ever as the upper limit of wages.

The employer's estimate of the value of labor is the resultant of two factors, the amount which the laborer can produce and the resources at the command of the employer. The first of these factors is so obvious that the Productivity Theory was based on the neglect of the second. The Wages-Fund Theory undoubtedly went to an extreme in the importance it attached to this second factor, but it rightly emphasized the fact that the employer is limited by the actual resources at his command in the amount that he can offer for labor. By this we mean not by the resources of any casual individual who may, rightly or wrongly, aspire to be an employer, but by the resources of the marginal employer: that is, ultimately by the amount of the

present income which the community is willing to divert from present consumption to the buying of labor. The Wages-Fund, in the narrower sense of the resources immediately (including credit) at the command of the employer, even though it be, as is asserted, continuously replenished, is an important fact in determining the proper limit. The Wages-Fund is a "Zwischen-reservoir," as Roscher has termed it; and although the capacity of the reservoir is no measure of the volume of the supply, the situation of, and the height of the water in, the reservoir determine the height to which the water can rise. The employer is the distributor of wages and, although the amount of his resources can affect money wages only, the question of money wages is the most important part of the question of real wages. The resources at the disposal of the employer include the credit he can command at the bank and elsewhere. The monetary and banking systems of the community are thus of immense importance to the working classes. The volume of business periodically increases; and, if the money of the country is inelastic and does not expand in volume when the volume of business expands, there is a great danger that the value of labor will periodically decrease. When banking facilities are rare and the credit system defective or undeveloped various devices are adopted, generally in connection with the method of remuneration, to supply the lack. Wages are paid, not weekly or fortnightly, but monthly or quarterly, or they are paid wholly or in

part in goods or in orders on a store controlled directly or indirectly by the employer, or in dwelling-houses or land provided by the employer; and the effect is, in every case, to provide a somewhat inefficient substitute for credit and to enable the employer to do a larger business on his available capital. The motive, of course, is not any desire to raise the wages of the workmen; but were it not that these devices have serious indirect consequences for the laborer, the practice, even from the laborer's point of view, would be laudable wherever the credit system is not developed. It is significant that in Canada at any rate these devices fall naturally into disuse without the necessity of legislation as the banking system expands, and that they are practised now only in back country districts or by employers whose credit at the bank is not good. Unfortunately, the practice is attended by so many evils which weaken the position of the laborer that their influence in raising wages is as nothing in comparison with the influence of their indirect effects in lowering wages.*

The upper limit of wages is fixed but only for the time being. It is not unchangeable and may rise and fall with changes in industrial circumstances. It may fall as well as rise, although the progress of the working classes during the last half century has made the idea of a lowering of the upper limit strange and unfamiliar. The employer's estimate

* For a further discussion of this question see Chap. VIII. of this essay.

will rise, in general, from two causes, viz., increased efficiency and an improved credit system. The conditions of a rise of efficiency are obvious and have been in part already discussed in the earlier chapters. The most important, as well as the most obvious, are the spread of elementary and technical education and the influence of high wages in improving the industrial capabilities of the laborer. Equally important, though not quite so obvious, is the influence which the lower limit has on the upper limit. Generally speaking, the higher the lower limit the greater the efficiency of the laborer. The man whose self-respect is great is likely, other things being the same, to prove the better workman. But this is true only in general, because a man's self-respect is never so militant as when it is wounded, and the attempt to violate the laborer's self-respect will result in a lowering of efficiency.

These limits are, in the main, determined independently of the influence of outside causes. The laborer determines the lower limit and the employer the upper limit, and public opinion and legislation, which have considerable influence in determining where between the limits actual wages shall be fixed, have no certain and regular influence on the limits themselves. The influence is felt mainly, where at first we should hardly expect, in maintaining the upper limit higher than it ought to be. This occurs more frequently in the case of the wages of management than in the wages of hired labor. The employer, influenced by the idea of

what ought to be a living wage for men of his own class and rank, frequently pays higher wages to his managers than their work is worth. At least this is the conclusion which follows from the remarkable fact to which Mrs. Sidney Webb has called attention in her *Co-operative Movement:* *

"By selecting officials and managers from a class without a conventional and extravagant standard of expenditure, they (*i. e.*, the "Lancashire Limiteds") have reduced the earnings of the brain worker to the level of his actual wants—to the personal expenditure needful for the full and effective use of his faculties. The preposterous salaries given by upper class shareholders to upper class officials—the £2000 to £5000 a year have been replaced by modest incomes of £200 to £400 and apparently without detriment to skill or integrity."

Between these limits the value of labor is determined by the comparative strength of the bargainers. If the laborer is too weak to enforce his claim the wages of labor will be nearer the lower limit: if the laborer is a strong bargainer, near the employer's estimate. In some cases where organization and combination have greatly strengthened the laborer's position, the margin of debatable territory will be almost absorbed by labor; and this is probably the case where a trade-union minimum wage is enforced. The object of trade-union policy would then be to force a general readjustment of the terms of dis-

* Beatrice Potter, *The Co-operative Movement*, p. 132.

tribution—a much more difficult task than that, already accomplished, of forcing wages up to the employer's limit because there will now be opposed to forces of trade-unionism, not merely the objection of the employer to a curtailment of his profits, but also the resistance of the other participants in the product to any readjustment which means a diminution of their shares. It is impossible to determine whether, or how frequently, labor has been able to absorb the margin; for the employer's maximum is definitely known only to the employer; and his protestations (because they are the protestations of an interested person) cannot be accepted except at a liberal discount. The fluctuations in the actual rate of wages which are frequent though not violent seem to forbid us to assume that the margin has been absorbed permanently by either party. The strength of the laborer, through combination, is very great; but his necessities, the influence of which he endeavors to neutralize by means of these combinations, are also very great; and combination is being met by combination.

The Wages-Fund Theory, which we saw presented the form of a reconciliation of the other two great theories, states explicitly that actual wages are determined solely by means of competition. From the standpoint of the fuller meaning which has been given to the limits of the Wages-Fund Theory, it is obvious that competition is not the only factor which enters into the determination of actual wages between the limits although undoubtedly it is one

of the most important. The competition of master with master for labor tends to raise wages towards the upper limit: the competition of laborer with laborer for work tends to force wages down to the lower limit; and the supply and demand of labor is of decisive importance in the determination. But competition is not the only factor or, at the best, is only a general name for the working of several factors the nature of which requires more explanation than is given in the use of one general term. The strength or weakness of the laborer's position is only in part determined by the number of competitors for work. We are not dealing with a mere commodity whose value may be completely determined by the more or less. We must, in the case of labor, take into account the knowledge which the laborer has of the general conditions of supply and demand and the presence or absence of that character and decision which would enable him to take advantage of his knowledge, of the strength of his own position and the weakness of his employer's.

The strength of the laborer as a bargainer depends on his knowledge of the market. Other things being equal, knowledge is power and here the laborer is weak. It is true that the improvement there has been in the laborer's position during the last half century has been, to a large extent, due to his greater knowledge of the conditions of the labor market. The differential advantage which the employer has always had owing to his greater knowledge and his wider opportunities for obtaining

information, has been greatly reduced by the spread of general education, by the dissemination of industrial news through the press, by the organization and federation of labor unions, and by the opening of industrial bureaus, State or municipal, for the gathering in and dissemination of information regarding the condition of industry in different parts of the country. The differential advantage, however, still continues in favor of the employer; for, although at the present day a labor bureau is regarded as an indispensable part of the administrative machinery of every progressive State or province, yet, till now, the information these bureaus have collected and published has probably been of more service to the economist and the statistician than it has been to the working classes. Indirectly, no doubt, through legislation promoted in consequence of the evidence thus presented, the interests of the laborer have been served; but he is still generally either too ignorant, or too apathetic, to make much direct use of the reports.

The laborer's ability to acquire information and his ability to use such information as he has acquired, have sometimes been restricted by methods of industrial remuneration. The truck system, which theoretically might have so many advantages for the wage earner, has invariably served to hamper his movements and to blind him to the knowledge of the actual condition of industry. The distinction between real wages and money wages is easy to draw in theory, and almost impossible to draw in

practice; and the truck system, in all its modifications, has served to make it even harder. Profit sharing, and other methods of deferred payment, whatever the motive which inspires them, have the same tendency to make it more difficult for the laborer to discover where his real interest lies.

Knowledge is not power, unless there is both ability and disposition to make use of it; and on this account the employer is again stronger than the laborer. The laborer is at a disadvantage because his necessities do not allow him to make use of the knowledge he has. He cannot often, even if he always would, follow wherever his advantage calls. The immobility of the laborer may be regarded as the crowning disability of labor. It is true that the employer is also handicapped by the fact that fixed and specialized capital is peculiarly immobile; but his disadvantage is not so great nor is it so immediate. Because the laborer must live by his work, it is more often he who seeks the employer than the employer who has to follow after the laborer. The immobility of specialized capital is not a very great disadvantage because the employer is the centre of attraction.*

Every disability under which the laborer suffers weakens his position as a bargainer and tends to keep wages down near the lower limit. Apart from the special disadvantages they bring, they generally have the effect of weakening character. Strength

* For the discussion of Mobility of Labor see the two following chapters.

as a bargainer corresponds, in some measure, with the strength of the economic character of the bargainer. He who knows his interest and is zealous to pursue it occupies a strong position. The effect of many of the minor disabilities is to weaken those qualities which would enable the laborer to take advantage of those conditions which are in his favor. The consciousness of the immediateness of his necessities, however, prevents him from taking the necessary risks to turn these conditions to his advantage and the fruit that might be his, had he the means of gathering, falls to his employer. Character and decision are qualities in which the employer, by his circumstances and his training, is strong, and consequently, in the contest of strength between the employer and the employed, the result would generally be much in the favor of the employer were it not that the laborer, conscious of his weakness and deficiency has, in combination sought and found a substitute for character.

Trade-unionism or collective bargaining is a method by which the laborer endeavors to remove or to minimize the disabilities, notably the immediate pressure of his necessities which forbid him, in isolation, to stand out for his price. The competition of master with master for labor is not so keen that it is not neutralized and more than neutralized by the competition of laborer with laborer for work; and by combination the laborer tries to do away with the suicidal competition of laborers with each other. This is the first but not the only aim

of trade-unionism. The early passive policy, if we may so call it, results in the organization of labor; and this organized force is used to snatch advantage from any disorganization in the ranks of the employers. So long as the employers are meeting with slight resistance the lack of harmony in their ranks is of small importance but this lack of harmony is the opportunity of organized labor.

The phrase "substitute for character" does not necessarily imply a depreciation of trade-unionism. Trade-unionism is only one expression of the maxim "union is strength"; and we cannot condemn it as arising out of weakness without at the same time passing condemnation on the whole evolution of society. Trade-unionism, though it does act as a substitute for character, does not destroy character. On the contrary, it builds character up and trade-unionists are the most energetic and self-reliant, not the least energetic and least self-reliant, of the working classes. The ability to combine is an evidence of comparative strength, not of comparative weakness.

There are other external influences, such as legislation and the pressure of public opinion, operating on behalf of labor which may, without reservation, be spoken of as substitutes for character. Whatever their final effect on the character of the labor they do not spring from, or imply, the possession of those qualities which make for industrial success. On the contrary, these influences are generally exerted in behalf of those who, from one cause or another, are weak and lacking in character and decision. Such

influences are not to be condemned merely because they have not their origin in the strength of those on behalf of whom they are exercised. If the effect is to weaken or to prevent the development of character they ought to be condemned and repudiated; but we cannot decide *a priori* that every substitute for character has this effect. It is true from of old that the curse of the poor is their poverty, and the disabilities of labor are cumulative in their effect. Consequently, if the influence of legislation and the pressure of public opinion can be directed to the raising of this acquired curse, the result may be the development of character. Legislation, undoubtedly, has had this effect. The position of the laborer as a bargainer has been improved not merely by Factory Acts and Employers' Liability Acts, but by every measure which, positively or negatively, aims at the amelioration of the condition of the people. Compulsory education, the encouragement of thrift, and measures of a like kind, strengthen the laborer's position, because they tend to remove the disadvantages under which he suffers, owing to his ignorance and to his necessities. Such measures probably promote rather than hinder the development of his character and thus, in a twofold manner, strengthen his position. Even though a measure may seem calculated to check the developments of character and self-reliance, it is not necessarily to be condemned. The evils and abuses at which it is aimed may more completely destroy self-reliance; but the proposed remedy obviously requires reconsideration

and amendment. It is a poor remedy which aims only at removing a symptom, instead of removing the cause of the malady. The abuses which can be removed by legislation arise out of, and are fostered and protected by weakness and want of character; and if these are perpetuated by legislation, in a short time new evils, as great and as objectionable, will have arisen to produce the same effect as the old abuses which have been suppressed.

There is little danger that, when public opinion is active on the laborer's behalf, it will operate to make the disabilities of labor permanent; for its influence will be principally exercised in forms which give the laborer confidence in his claims, and make him more resolute in his efforts to enforce them. Public opinion can strengthen the laborer's position because there is something depressing in being in a minority, and the employer is, to some extent, subject to this common failing. Thus, even when public opinion finds no more forcible expression than in letters to the newspapers, its influence on the industrial situation may be considerable; and, when the mind of a whole community is strongly impressed with the justice of the laborers' claims, the employer will not be able to follow up his advantages so promptly and, at the critical moment, his hand may be stayed through a dread of social disapprobation. Occasionally, public opinion makes a decided protest against the rapacity of the employer and expresses its protest not merely in words but in money contributed to assist a picturesquely depressed class in

its struggle for economic freedom or higher wages. The great dock strike in London was a success because of popular sympathy and popular contributions. The demand for the dockers' "tanner" approved itself and public opinion was aroused against the magnificence of the dock companies' attitude—the attitude of the Friend of Humanity to the Knife Grinder.

"I give thee a sixpence. I will see thee damned first."

The influence of public opinion * has hitherto been exerted on behalf of labor, only in a capricious and a spasmodic way; and the merits of the case have usually had little to do with the matter. Public opinion is not a force on which the friends of labor can place reliance; for it might easily be thrown into the opposite scale whenever the convenience of the public is threatened. The increasing humanitarism or sentimentalism of the public, and the increased information which all men have of the way in which the other half lives may suggest to the more hopeful that, in the future, public opinion will strengthen the laborer, not merely in the dramatic struggle of the occasional strike, but also in the steadier contest of which a strike is but a violent episode. There is no doubt a growing interest in

* The distinction drawn between legislation and public opinion is not absolute. Legislation is but crystallized public opinion, and the most beneficent pieces of labor legislation, *e. g.*, the Factory Acts, etc., have been carried as a result of the systematic pressure of enlightened public opinion.

labor questions on the part of those who make or mold public opinion. Newspapers and magazines, church congresses and scientific associations, show the same tendency; and this social interest will undoubtedly operate more fully and more steadily than it has done towards the end of the amelioration of the condition of the working classes. But as yet public opinion is, itself, in need not merely of being roused but also of being educated. It will be educated more by the force of example than by the force of the precept. The influence of those model employers from Leclaire to Mr. Mather, who have endeavored in part to see labor questions from the standpoint of the laborer himself, is already beginning to have effect on public opinion; and the influence of State and municipal authorities is being exerted in the same direction. The example, which is being set in many countries by the government and by public authorities in establishing an eight hours day, as the United States government has done for its employees, in inserting in all contracts a clause requiring a trade-union minimum wage to be paid by the contractor to his employees, as the London County Council does, or in suggesting, as Mr. Fowler did, in 1893, when President of the Local Government Board, in a circular to local sanitary bodies, that public works should be executed and public contracts given out at the season when employment is otherwise scarce—is likely to create a sentiment which will assist the laborer, and assist him in a manner which can involve few of the dan-

gerous consequences which generally follow from legislative interference with the course of industry. The influence of this sentiment may involve some injustice to employers who are not backed by the public funds, but the laborer's necessity will cease to be regarded as the employer's opportunity. The ultimate result will be, through sympathy, a development of conscience among employers, and the creation of a disposition to pay without compulsion all that the laborer is really worth rather than merely what he can be forced to take. The process of elevating business to the rank of a profession, through the pressure of outside opinion, will necessarily be slow; but the sporadic appearance of profit sharing schemes, in one form or other, shows that the old individualist standpoint may be in time abandoned.

CHAPTER V.

THE MOBILITY OF LABOR.

NOTWITHSTANDING Adam Smith's classical caution that "man is of all sorts of luggage the most difficult to be transported," * the early English economists postulated a perfect mobility of labor; and, by a strange perversion, admitted only as a possible and merely theoretical exception the obvious fact of the immobility of labor through custom and ignorance. Mobility was the method by which competition worked to secure equality of wages. It is probable that, for these economists, equality of wages meant merely an arithmetical equality, not an equality of net advantages, or a real equality of payment according to the actual amount of work done as measured by the result. Even those who reject the Wages-Fund Theory continue to be partly influenced by the artificial simplicity of the arithmetical ideal. Prof. Walker declares † that a difference in wages which would be

* *Wealth of Nations*, p. 31.

†Walker, *Wages Question*, p. 184.

sufficient to induce a man to cross the Atlantic is often insufficient to send him from one part of the kingdom to another, ignoring, inconsistently for the time being, the fact that the northern laborer may be more efficient than the southern, in an even greater degree than the difference of wages indicates. He seems to regard differences in wages as proving the absence of mobility; whereas mobility and competition, while they will secure the removal of accidental differences of wages, due to local failures of the equation of demand and supply, have no tendency to level up the wages of inefficient workmen to the same height as those of efficient workmen.* The facility with which the Wages-Fund Theory assumed an arithmetical form possibly predisposed the Theorists in favor of the arithmetical ideal.

The mobility of labor is a postulate necessary to make the Wages-Fund Theory march. As one departs from it and the necessity for mobility, as a theoretical postulate, decreases, the defects of mobility, as a social and economic ideal, become more prominent. Those customs and prejudices which the theorists regarded merely as hindrances to the free play of competition, come to be regarded as social forces of great value. Dr. Smart, the English exponent of the newest theory of distribution, goes to the opposite extreme, perhaps, when he declares: "Physically, labor is not mobile; historically it has never been mobile; and, ethically, it should not be

*See the tables given in chapter vi., p. 212, for evidence as to influence of mobility to level up wages and remove accidental differences.

mobile." * This terse statement is possibly too epigrammatic to be altogether accurate; but there is a larger measure of truth in it than in the Wages-Fund Theory postulate of universal mobility. Historically, even the Theorist would probably admit, labor has never been mobile; and he might go so far as to allow that there are great hindrances, even at present, to the mobility of labor; but that, ethically, labor should not be mobile is contrary to his most cherished opinions. The change of views regarding mobility is part of the general change of opinion regarding the whole wages question. It is incorrect to say that at present labor is not in any degree mobile; because the great characteristic of an age of transport is the increasing mobility of labor; but, at the same time, as the physical difficulties of transporting the human "luggage" diminish, the ethical objections to mobility increase. While the difficulties of transport were great, only the more self-reliant and self-dependent had the enterprise to change their habitation. There was then no social danger, but great social and individual benefit, in the migration of labor. When, however, these difficulties of transport no longer deter the weakest in character and self-reliance from emigrating from one end of the earth to the other, it is well that the ethical objections to mobility should be emphasized.

As industrial competition is probably only a short-lived, and not over-beautiful, stage of transition from custom to combination, so mobility is only a tem-

* *Studies in Economics*, p. 171.

porary postulate of the theory of distribution. When the bonds of custom have been broken, and the interests of the worker are no longer safeguarded by tradition and public opinion, it is necessary that the laborer should be ready to follow wherever his economic interests calls. It is practically the only way by which any measure of justice in distribution can be obtained. As soon, however, as a substitute for migration is available, all the ethical objections, hardly silenced hitherto by the plea of necessity, become vociferous. The combination of labor provides a substitute for mobility, not a complete substitute removing altogether the necessity of migration, but doing away with the more objectionable features. Mobility is no longer the only and indispensable condition of justice to the wage earner. The trade-unions in the early stages of their history encouraged migration; but as they have grown in strength and become able to enforce their demands without recourse to a strike they have modified their policy. There is no longer the same need to facilitate migration because "the more perfectly a trade is organized the less necessity is there for its members to travel in search of work." * Within the last twenty years, trade-union policy with regard to travelling benefits has completely changed. This is due in part to the fact that improved communication has levelled wages up so as to bring about some measure of equality of net advantages; and also in

* From evidence of Pattern Makers Association before Royal Labor Commission (Eng.), quoted by Drage, *The Unemployed*, p. 18.

part to the fact that the same cause has universalized trade depression when it occurs, and rendered even emigration a futile endeavor to escape from bad trade. The network of trade-unions covers the land; and, as local unions have been federated into national and international unions, while governments and municipalities have organized labor bureaus and industrial agencies, information regarding work and wages has become more definite. Instead of receiving a travelling benefit, the trade-union out-of-work member has his fare paid to a district where work may almost certainly be obtained. The practice has become obsolete because organization is better and the unions have definite reports of the state of the labor market; and because as the necessity of the policy becomes less urgent the social and ethical objections to it become more convincing. Some unions discarded the policy because it fostered a roving spirit and degraded the members: others have abandoned it because, as in the case of the iron founders, it was made use of to secure a free holiday. Even from the narrowest trade-union point of view, the policy was one marked out for abolition, so soon as it became possible to do away with it. The object of trade-union policy, collective bargaining, cannot be achieved unless a union can control its own members; and the roving unsettled spirit which took possession of the professional mendicant as Mr. Howell calls him, rendered him less, not more amenable to union discipline. From the broader point of view, moreover,

to which to some extent,* the older and stronger unions have risen, viz., that the moral and intellectual progress of the workers is essential even for material success, the policy of assisted migration is open to weighty objections. It is not that the home and place attachments are hindrances to mobility but that, from the point of view of good citizenship, these hindrances should not be removed but built up. *Ubi bene ibi patria*, as a maxim of politics or of industry, gives us neither good citizens nor good workmen. Mobility may often be the only safeguard of the interests of the worker; but when, by efficient organization, it can be superseded and the same, or nearly the same, benefits achieved without sending men forth, homeless wanderers from one job to another, society is the gainer. There are still many trades and industries where the free circulation

* "At one time tramping was systematic and general; and it became a great nuisance, for many men merely used the society as a means for enabling them to tramp all over the country, living upon the funds of the union. . . . This practice has greatly diminished of late years; . . . it so degenerated as to become little better than a kind of professional mendicity."—Howell, *Conflicts of Capital and Labor*, pp. 141–142.

Since 1877, "the system of travelling benefit has declined more and more. It is discouraged by nearly all the better organized unions throughout the country and, as a rule, rightly so. In the London Society of Compositors and the Scottish Typographical Association travelling relief has been abolished for several years, the members receiving a removal grant to enable them to proceed to an engagement they may have obtained in any part of the United Kingdom."—*Ibid.*, p. 142, n. *Cp.* also, Drage's *The Unemployed*, p. 18, n.

of labor is essential because no other method can be, or, at any rate, has been, devised to secure the same result. Where a trade is not organized, where the supply of workers, in the unskilled trades especially, is liable at times to be far in excess of the demand, it is of vital importance that every worker should be ready to move to a place where the demand is greater. As a social factor, combination is preferable to mobility and, as an economic force, not less powerful. The same results may be achieved by either method. Organized trades have discarded their policy of encouraging migration: unorganized trades depend largely on mobility for any improvement in the condition of labor which they desire; and their trust is often justified by the results. The wages of domestic servants have risen, both really and nominally, as far, and as quickly, as the wages of any other class; and, in their case, the rise is due entirely to their mobility. Domestic servants are not in any way organized, unless it be by a kind of tacit combination; but, as a class, they possess the very highest degree of mobility, as any housekeeper will most vehemently testify. They are "found" in everything: they have no local and few personal attachments, except of a transitory nature, to bind them to any particular place: the demand for servants exceeds the supply; and, without a "character," they can obtain a situation. The result is, that in the rise of their wage, they exhibit the maximum advantages of mobility; but, as a class, are coming to exhibit the mental and moral deterioration in which exces-

sive mobility results. In the domestic servant the early English economist might find his ideal of the free circulation of labor, but it has no beauty that we should desire it.

The phrase, mobility of labor, covers two very different kinds of migration which, ordinarily, have little to do with each other. It includes the migration from one industry or occupation to another, which we may call, *trade mobility;* and migration from one district or country to another, *place mobility.* The former is undoubtedly the more difficult and, unlike the latter, is becoming increasingly more difficult. The improved means of transport and communication which rendered place mobility much easier have, on the whole, as part of the great modern movement towards specialization, helped to make trade mobility harder, if not a practical impossibility. It is true that there is the possibility of exaggerating the restrictions of specialization. Prof. Marshall has shown * how general intelligence, in nearly all industrial occupations, is rising in importance as compared with specialized skill; and, to the extent in which this holds, increasing specialization does not necessarily imply greater permanence of trade boundaries. Specialization in the form of localization of industry naturally destroys migration from district to district; while, as we shall see later in this chapter, place mobility has a certain tendency to promote trade mobility where general intelligence is more in demand than highly specialized skill. When

* Marshall's *Principles of Economics*, Book IV., c. 9, *passim.*

specialization has proceeded so far that the market for specialized labor is a local market, migration from district to district is of comparatively little importance, unless the worker is prepared to take the step of changing his trade at the same time.

The early economists spoke lightly of trade mobility, as if there were no real hindrances, as if, in a word, workmen took up, or, at any rate, could take up, a new trade every week. The assumption is necessary for the theory, and they make it unhesitatingly. Even Adam Smith, who has warned us that man is "of all sorts of luggage the most difficult to be transported," * forgets the significance of his own warning, and assumes that "the whole of the advantages and disadvantages of the different employments of labor . . . must, in the same neighborhood, be either perfectly equal or continually tending to equality"; although, to secure such an equality it would be almost necessary for every workman to be ready and able to change his trade at a moment's notice. Few economists, except McCulloch, to whom it seems to have been given to carry everything to an extreme, have gone so far. Most have recognized, more or less explicitly, the existence of what Cairnes called non-competing groups within which there may be perfect mobility but between which there is practically no migration. Between the extremes of Adam Smith and Prof. Cairnes the truth lies. Unless the non-competing group is so narrow as to include only one trade,

* *Wealth of Nations*, Book I., p. 41.

there is no such perfect mobility as Cairnes demands; while, between the groups there may be little strength in the tendency to pass from one to another upwards, there is always a considerable movement downwards. So far as adult labor is concerned, trade mobility unfortunately generally spells degradation from the ranks of the skilled to the unskilled.* There is always, owing to old age and infirmity and to lack of adaptation, a movement downwards; and, as the amount of work which can be done without any previous training, is becoming less, the degradation is apt to be very sudden, from skilled labor past unskilled labor to casual labor. We do occasionally meet men who, in their time, have played many parts, and yet have maintained their grade or even risen in the scale; but, as a rule, the measure of their total success is not such as to lead us to place much stress on trade mobility as an agent in industrial fortune. Even in America, the paradise of self-making men, the proportion of those who rise, is very small. A great many instances of striking success may be enumerated, but it seems probable that the day of the self-made man who rises from the ranks is past.

It is more than doubtful whether trade mobility increases the real wages of the migrant. By changing from one occupation to another he may secure an immediate advantage; but, to secure this advantage of opportunity (for that is all it usually amounts to), he sacrifices the whole rent of ability which he

* But see later in this chapter, p. 190.

might have gained from his previous training. The changes are often, in the long run, short-sighted. It might almost be laid down as a general rule, to which of course there are particular exceptions, that when an individual changes his trade or his country, after he has served his apprenticeship or completed his training, we have a tolerably certain indication, if not of failure, yet of very moderate success in the new calling. To seek an immediate advantage by the sacrifice of past training leads to the goal reached by those whose parents, or themselves, have been unable to resist the temptation offered by the high immediate returns from odd jobs. Just as the earnings of those who follow two different employments do not exceed the earnings of those who confined themselves to one, so men who pass readily from one employment to another at the suggestion of the slightest immediate advantage seldom succeed ultimately in bettering their position; for we must take account not merely of the earnings of a week or a year but of a working lifetime, and consider the rent of ability which may arise after years of patient industry, in one occupation.*

* An exception must be made in case of what may be called stepping-stone employments. Very few of the men who enter the teaching profession in America as public-school teachers have any intention of remaining in the profession. It forms a very convenient means for students whose funds are exhausted by the expenses of college to earn enough to enable them to attend a professional school. It is good for the young men that they should have an opportunity of earning immediate high returns but is, on the whole, very bad for the status of the profession.

Since the exposure of the Wages-Fund Theory, few writers can be found to assume the trade mobility of adult labor. Prof. Cairnes declares that, within the non-competing groups mobility, and, through mobility, equality of advantages, is secured by the existence of a disposable fund of young persons annually arriving at industrial age. In one sense the energies of these young persons are at disposal to be distributed among the industries which offer the largest net advantages; but, even granting the fullest measure of freedom of industrial choice, it is questionable whether the fund is large enough to produce the desired effect. The number of young persons, annually arriving at industrial age, does not constitute more than two and a half, or three per cent. of the total number of workers; and, in the best of years, the trade-union returns show that as large a proportion of the best workers of the country are out of work. Consequently, there is no industry, or small group of industries, ready and able to absorb all these new recruits to the labor army; and, in the absence of a special opening, the probability is that the annual two or three per cent. will be distributed over the whole industry of the country.

It is obvious that, apart from predilections for particular occupations, on the part of the children (which are naturally not based on any estimate of the net advantages of the employment), the disposition of this fund of labor depends on the knowledge and foresight of the parents and on the sacrifices

they are prepared to make. The knowledge is not always sufficient; though most parents will make sacrifices for their children, sufficient, at least, to place the children in as good a position at the beginning as that at which they themselves stand. Farther than this, except in special cases, the average parent is not prepared to go. Here and there, we may find men who are endeavoring to place their children in a better position than they themselves occupy. Men whose ambitions have been thwarted often become ambitious for their children; but we must beware lest our admiration of the sacrifice lead us to overestimate the frequency of its occurrence. It is regrettable that, owing to the wrong development of our educational systems, these sacrifices are generally made with a view to secure for the children the chances of a professional or semi-professional career. The crowded state of the market for genteel unskilled labor shows that knowledge and foresight on the part of the parents are quite as essential as readiness to make sacrifices. It is rather on account of social position than on account of higher wages in the employment, that sacrifices are made by the parent; and where the inspiration of the hope of seeing a son "wag his heid in a poopit" is wanting, the sacrifices made are not very great. A great deal of the labor legislation of the last half century was passed to prevent the sacrifice of the children for the temporary advantage of the parents; and in that legislation we have an objective and unsentimental estimate of how much

some parents are prepared to do for their offspring. In large cities probably less is done for children by their parents than is done in the smaller towns and in the country. In spite of the great variety of occupations in a large city, it is often difficult to get a boy apprenticed. Employers are able to rely on the immigration of skilled artisans trained in the country and are, therefore, unwilling to take the trouble of training apprentices. The difficulty of getting boys apprenticed makes parents yield the more readily to what Mr. Charles Booth calls the temptation of odd jobs. In a large city, pay is more strictly according to the work done; and if a boy can do the same work as a man his remuneration will be almost as large as a man's.

The consequence of the absence of customary wages is that the city-bred boy has abundant opportunities of earning large immediate returns for labor, which requires little more skill than he has as his city birthright. It is not altogether a matter of wonder that the parents, almost disheartened by the ceaseless struggle to keep a decent roof over their heads, should succumb to the temptation of adding such an amount to the family earnings as will make the difference between ceaseless worry and comparative content; even although, what probably they do not realize, the boy may, in a few years, be left stranded.

Most fathers will declare, as a matter of course, that they prefer to bring up their sons to any trade but their own; but, equally as a matter of course, nine tenths of the disposable fund of labor will be

annually distributed according to the trade of the fathers. Sometimes, as in country villages, the disposition will be accidental. A boy is apprenticed to a plumber or a carpenter according as it happens to be the plumber or the carpenter who requires an apprentice. In larger places, the fact that vacancies for apprentices are few, especially when the district has specialized, more or less, in one kind of production, or when the trade-union prejudice against apprentices is strong, and the fact that a father has exceptional opportunities of advancing his sons, afford a motive strong enough, were the influence of custom and habit not operative, to secure that the son follows his father's trade. In the best shops, indeed, those into which a father would endeavor to introduce his son, preference is generally given to the sons of employees when a vacancy occurs.*

The trade mobility of labor, whether of adults or of young persons, has never been very great. Adults cannot change without the sacrifice of the benefits of past training; while children are brought up to the trade of their parents because circumstances are stronger than the vague wishes of the parents. Prof. Walker asserts that till the mobility of the adult is

* The first article in the regulations of Redouly et Cie. (Ancien Maison Leclaire), Paris, is to the effect that "the sons and nephews of the foremen of the workshops, of the workmen and employees, members of the *noyau*, are received as apprentices in preference to all others."—*Canadian Blue Book*, "Social Economy" (1889), p. 173. Elsewhere, though the preference is not so clearly announced, the practice is much the same.

secured there will be no force in the tendency for children to be apprenticed to trades other than those followed by their fathers. In view of the distinction between trade mobility and place mobility, we may modify this assertion to the form that till place mobility has been secured for the adult worker, there is very little opportunity of trade mobility for his children. When the adult worker has changed his home, especially when he has emigrated to a new country with greater opportunities and a more open career for talent, the chances of the children adopting a different occupation from their fathers are greatly increased. Emigration does not always secure to the emigrant the benefits he anticipated; but it rarely fails to improve the chances of his children.

Migration, or place mobility, has a certain tendency to promote the trade mobility even of adult labor—a tendency most marked in the case of emigration. Whether the migration from district to district of the same country or from the rural counties to the cities has the same tendency, is not quite clear. The high returns for physical strength and for trustworthiness, with both of which qualities country-bred workers are comparatively better endowed than townsmen are, offer a temptation to rural emigrants to a large city to forsake a skilled trade for an unskilled occupation. There are many occupations in which these qualities rather than technical skill or alertness are required; and consequently we find immigrants in large numbers in these

occupations.* We should also expect that the generally trained labor of the provinces might, in many cases, prove unable to maintain its position in the highly specialized industries of the metropolis: with the result that a certain proportion of the emigrants would seek employment in the relatively highly paid unskilled occupation. Full statistics are lacking on this point, and those we have hardly justify any conclusion. The figures given in Booth's *Life and Labor of the People*, by Mr. H. Llewellyn Smith, show that out of a thousand emigrants a slightly smaller number of skilled artisans is found working in skilled trades after migrating to the town. Out of one hundred and fifty-nine skilled artisans scheduled, four only have dropped into the ranks of the unskilled, while six of the total five hundred included in the table, one of whom, however, was a boy of fifteen when he migrated from London, had risen from the ranks of unskilled; or 2.5 per cent. of the skilled artisans have fallen, while 1.7 per cent. of the unskilled have risen to the ranks of skilled labor. †

* In December, 1888, 70 per cent. of the city and the Metropolitan Police (London) were born elsewhere than in London.—Booth's *Life and Labor of the People*, vol. iii., p. 87. In one of the sub-districts of the city of London the proportion of outsiders is as high as 46 per cent. of the total population of the district; and the fact is accounted for by the nature of the occupation of the permanent portion of the population of the city, viz., caretaking.—*Ibid.*, p. 124.

† Booth's *Life and Labor*, vol. iii., p. 140. Five hundred cases were actually scheduled, but to obtain a basis for comparison one thousand is taken (p. 140) as the standard total.

Emigration seems to promote trade mobility more readily than migration from the rural counties to the cities does. This is possibly due in part to the fact that emigration is a much greater change and creates a disposition to make further changes when occasions offer *; but more largely, probably, to the fact that in the new countries, towards which international migration is mainly directed, the division of employment is not so marked as in older industrial communities. Consequently general intelligence is relatively more important in a new country than highly specialized ability; while the greater use of automatic machinery, owing to the dearness of labor, has reduced many occupations to the class of the unskilled, though nominally, they are still skilled industries. The relative disadvantage at which highly specialized ability is placed in the colonies is so notorious that the British Emigrants' Information Office deliberately warns skilled artisans that the colonies are no place for them.

"In new countries, there is not the same strong line drawn between different employments and different branches of the same trade, as in our own. . . . The more specialized a man has become in his work and calling, the less fitted is he to emigrate, partly because he is unlikely, in most cases, to find an opening in his own specialty in the colonies, partly because he is not suited to turn his hand to general labor." †

* See chapter iii., pp. 107, 108.

† *Report of Emigrants' Information Office*, 1888.

Adaptability, rather than highly specialized skill, is the condition of success for an emigrant; and the comparative youth of the emigrants renders them much more adaptable.

In spite of the fact that the enterprise and the adaptability arising from youth would prepare us for some measure of trade mobility as a result of emigration, we are not quite prepared for the apparently enormous amount of it. Children form a large proportion of the total number of emigrants and are a specially disposable fund of labor. They are not included in the occupation returns at the port of entry; while in later years they are included in the numbers of foreign-born employed in various industries. We have, however, a more serious movement to explain than can be thus accounted for. Many emigrants must actually rise in the standard of labor, becoming at least nominally skilled laborers; for while seventy per cent. of the immigrants at the port of entry who have had any occupation return themselves as laborers, more than thirty per cent. of the total working population of the United States engaged in mining, manufacturing, and mechanical pursuits is foreign-born.* The foreign-born formed 14.77 of

* The practice now abandoned by the provincial governments in Canada of giving assisted passages to agricultural laborers probably made the percentage of laborers who entered somewhat greater than it really was. Naturally accurate information is entirely wanting, but there are several complaints from trade-unionists and others of mechanics taking advantage of the assistance reported in the evidence before the Canadian Labor Commission. The deception cannot have been carried on to any great extent.

the total population in 1890, but they are more than thirty per cent. of the total engaged in the skilled industries. A very large number of those who are unskilled laborers when they arrive must within a few years become skilled or quasi-skilled laborers. The percentages which are given below may, in some cases, include the unskilled labor employed in every mill and foundry; but, after every allowance is made, the unskilled laborers of Europe become in a short time skilled laborers in America. The immigrant laborer

"comes ready to take up any occupation in which it can earn a living. I do not suppose that the French-Canadians when they come to the United States enter themselves as cotton-mill operatives. Probably they have never seen a cotton mill in their lives. They are only potentially cotton-mill operatives; but they fill up the mills just the same. So very likely the Hungarians who are imported to dig coal in the Hocking Valley are not miners when they arrive." *

Although only an insignificant fraction of the immigrants are skilled laborers when they arrive, yet the census returns show that thirty per cent. of the skilled labor of the United States is of foreign birth. In some districts the proportion is much higher. In Minnesota it amounts to 47.5 per cent.; in Wisconsin, 48.8; in Illinois, 43.3; in Michigan, 43.4; in Massachusetts, 35.6; in Rhode Island, 39.1; in New

* Professor Mayo-Smith's *Emigration and Migration*, p. 127. I am also indebted to this book for the statistics quoted below.

York, 38.7; and in Connecticut, 32.4. In some skilled industries, the proportions are considerably in excess of the general average for the country; while the number of immigrants following these occupations at the time of entering the country is very small. In 1886 there were only twelve occupations in which the number of immigrants exceed one thousand, and in many of these industries from a third to a half of the employees throughout the country were of foreign birth. Thus there were in 1886:

TABLE OF OCCUPATIONS OF IMMIGRANTS AT PORT OF ENTRY AND OF FOREIGN-BORN IN U. S.

	1886.	1880.*	1880.
OCCUPATIONS.	IMMIGRANTS.	TOTAL NUMBER OF WORKERS.	PERCENTAGE OF WORKERS OF FOREIGN BIRTH.
Bakers	1209	41,309	56
Blacksmiths	1420	172,726	27
Butchers	1190	76,241	38
Carpenters	3678	373,143	23
Masons	1803	102,473	35
Shoemakers	1681	194,079	36
Cigar makers	1160	56,599	44

These are minor industries; but in the larger industries the proportions are nearly as high, while the number of entries is smaller. Of cotton-mill operatives, forty-five per cent. were of foreign birth; of woollen-mill operatives, thirty-nine per cent.; of paper-mill workers, thirty-three per cent.; of iron and steel workers, thirty-six per cent.; of curriers

* Compendium *U. S. Census Report*, 1880, table 103.

and leather dressers, forty-five per cent.; of engineers and firemen, twenty-seven per cent. Many of these industries, it is true, since the introduction of machinery, have gradually been coming to have less and less claim to the title of skilled trades; and it is probable that many of the immigrants become skilled laborers only in name. Thus in 1880,* of 133,756 tailors and tailoresses, 71,571, or more than fifty-three per cent., were of foreign birth, and the amount of skill possessed by the victim of a sweater, though it may be sufficient to justify the title skilled, is, after all, not very great. Mr. Schloss gives us, from the evidence taken by the Lords Committee on Sweating, an instance of the evolution of an unskilled emigrant into a skilled workman. A witness, Hirsch by name,

"had been an agricultural laborer in Russia and had come to England six months prior to his appearance before the committee. He presents himself to a countryman of his, who is himself a journeyman finisher employed by a sub-contractor. 'He gave me nothing the first week, but he gave me food, and he gave me a shilling for the second week with food.' Then Hirsch is advanced to five a week and now he is making eight. 'I start (the evidence continues) on Sunday morning, commencing at seven and work up till ten, and the other days I start at six and work right up to ten as well, but on Thursday I work up to twelve o'clock and on Friday come again at six, then I work till sunset.'" †

* Compendium *U. S. Census Report*, 1880, table 103.

† Schloss, *Industrial Remuneration*, p. 111.

While emigration undoubtedly tends to raise many workers from the ranks of the unskilled it remains more than doubtful whether the worker is really benefited to the extent the classification seems to connote. The skilled trades which he adopts are now, only in name, skilled trades; and as an unskilled laborer his first condition was often, not worse, but better.

Trade mobility, then, though a necessary postulate of the Wages-Fund Theory, has never been a very important factor in the determination of wages. Adult labor seldom migrates from one industry to another; and where it does move the results are not altogether good. Though as a result of emigration large numbers seem to rise in the scale of labor the rise is often merely nominal; and the amount of trade mobility, even under these circumstances, is hardly sufficient to bring about the equality of net advantages. McCulloch declares that "the discrepancies that actually obtain in the rate of wages are all confined within certain limits—increasing it or diminishing it only so far as may be necessary fully to equalize the favorable or unfavorable circumstances attending any employment."* To secure such a real equality of reward, the actual influence of the fullest measure of that trade mobility which is so lightly postulated would have to be exerted; and our examination has shown us that no such degree of mobility is operative. Place mobility, without trade mobility, could secure only

* *Principle of Political Economy* (Murray's Reprint), p. 124.

that within the limits of a single trade there might be the world over a practical equality of reward: without trade mobility inequalities of returns in different trades might long continue even were the volume of emigration very large.

Place mobility, though not theoretically so important, is, and always has been, of more practical importance as a wages factor than trade mobility. The migration of labor from one district to another is easier than the change from one employment to another. The conservative influence of custom and tradition operates against both forms of mobility; but, since a man's occupation becomes so much more intimately a part of himself than the locality in which he lives, the change implied in trade migration is so much the greater than that implied even in emigration. There are other sentiments which color a man's life beside his trade traditions and attachments; but these—religion, national sentiment and local patriotism, home ties and family attachments—are, in part, not sacrificed by emigration; and, when they cannot be enjoyed in the new land, the sacrifice involved is not recognized till months after the change has been made. On the other hand, the dangers and drawbacks of change of occupation are immediately felt. The dangers are so obvious that we may take it for granted that the change will hardly ever be made without the fairly sure prospect of material advantage. Sentiment enters less, and practical advantage more, into the motives which lead to change

of employment; and as the organization of industry becomes more complex, the possibility of advantageous change from one occupation to another diminishes. The change involves the learning of a new trade, and, during the period of learning, the acceptance of a low rate of wages. The average rate of wages in the new occupation may be higher than the rate in the old; but the wages of a learner in the new cannot, if the trade be worth adopting, for a long time, be much more than the earnings of the former occupation. The advantage sought is seldom sure enough, or large enough, to cover the risks of the change; and, as place mobility equalizes the returns in a trade the world over, there will be less inducement to a man to change his occupation to escape a local disturbance of wages.

CHAPTER VI.

THE MOBILITY OF LABOR *(Continued)*.

BEFORE the Industrial Revolution there was little migration of labor: in part, because freedom of movement was restricted by poor laws and other legislation; but also because there was less necessity for it. Supply was more closely then than now governed by demand; production being for a steady and a known market. The area of the market was limited and the distinction of employer and employed was not so definitely drawn. When, however, the area of the market extended and machinery was introduced, trade became subject to violent fluctuations. Demand and supply are no longer in correspondence, and industry is alternately inflated and depressed. The laborer is the passive victim of this want of correspondence. He is no longer the small master producing for the known market, but a laborer for hire. He must live by the reward of his labor from day to day; and the fluctuations of industry tend, on the whole, to depress wages. The fluctuations are not offset by each

other. The laborer's remuneration in good times is scarcely ever sufficient to tide him safely over bad times without recourse to the "poor man's banker," or to credit at the store; for in bad times, despite the equalizing effects of machinery, there is sometimes great lack of employment in the district in which he lives. Since the laborer must, so to speak, deliver the labor himself, it matters little that work is plentiful elsewhere, if the laborer remains where his commodity is a superfluity. Consequently, mobility is a necessity for the equation of the demand and the supply of labor, or would be, were trade fluctuations merely local. Unfortunately, as the knowledge of industrial conditions in other districts increases, the area of depression widens. The same forces which have rendered migration easy make trade depression universal. It is difficult, now, to imagine any trade depressed in one district and prosperous in another, as it might have been before the Industrial Revolution. The improved means of communication which naturally promote the tendency of labor to migrate have equalized industrial conditions and thus destroyed the inducement. We shall see below that the volume of migration is decreasing and at the same time becoming a regular movement. We can hardly speak of the circulation of labor because the movement is steadily in one direction—towards the cities.

We need not draw any rigid distinction between the two forms of place mobility, migration and emigration. The political effects are different, but, in

essence, the economic effect is nearly the same. It has generally been assumed that migration is a much more extensive movement than emigration: so much more extensive a movement that the whole orthodox theory of foreign trade is based on the difference. To justify the hypothesis of the economic nation in the theory of international trade it is necessary to assume that the mobility of labor within the nation is practically complete; while between the nations it is practically non-existent. The assumption is not even approximately accurate. The volume of migration within the nation is not only not so great as is supposed, but is shrinking; and emigration which, it is supposed, is not sufficient in amount to bring about a real equality in the cost of production must, in some cases, be a more powerful industrial factor than migration. Between the Maritime provinces of Canada and the New England States the movement is steadier than the movement from these provinces to Ontario and Quebec; and the city of Boston contains a very much larger number of "provincialists" than Quebec, Montreal, and Toronto.* It is hardly pos-

* The aim of a protective policy, in the language of the orthodox theory of foreign trade, may be said to be the identification of the economic with the political nation. The "National Policy," as it is called in Canada, therefore included the improvement of the internal means of communication. The table of Canadian migration below shows that the effect of this part of the policy is not appreciable, but without it the "N. P." would have been a greater organized injustice than it was. The usual method was adopted of compensating one class for the special burden placed upon it by placing another equally heavy burden upon some other class or section of the community.

sible to make a comparison of the respective volumes of migration and emigration. The census returns of those countries in which both movements take place are not detailed enough to permit a thorough comparison. For instance, in the English census, the county is taken as the unit area: in the Canadian census, the province. The unit area, in either case, is too large. Probably the greatest amount of migration takes place within the unit area. The English census of 1881 shows, that of 8,877,623 persons who resided elsewhere than in the county of their birth, 4,049,918, or nearly half, were resident in the counties bordering on their native county; and probably at least another four millions have migrated from one place to another within the county of birth. The same remark holds true, to an even greater extent, of the returns of the Canadian census, where the unit is the province. Census returns, moreover, can take no account of successive removals by the same individual; and ten years is a period long enough to cover several changes. The volume of migration must, consequently, especially

Thus Nova Scotia received, as its compensation for the manufacturing monopoly in Ontario, the duty on foreign coal and iron. This practice has been found, in all countries, politically necessary, but is none the less an impossible and ridiculous method of distributing the sectional benefits of protection throughout the community. The task of identifying the political and the economic nations in Canada, and thus securing a just distribution of the gains and losses of monopoly, is peculiarly difficult because there will always be a greater movement between Canada and the United States than between Quebec and the English provinces of Canada,

in the case of Canada, be much larger than is set down in the census returns.

Even when every allowance is made for the incompleteness of the figures, total migration is not so much greater in volume than emigration as to justify the assumption of the theory of international trade. The total number in any given year of those who have migrated, is not the same as the volume of migration in that year; and it is the volume of migration that is the industrial factor.

Migration, however, is not only of less comparative importance as an economic force in distribution than is assumed, but is also a factor of decreasing, or, at any rate, not of increasing importance.* The volume of migration reached its maximum ten or twenty years since; and the opening of new lines of communication and the lessened cost of transit have been apparently without effect on the volume. Within the United States the volume of migration has not merely been stationary, but has sensibly shrunk. This is due in part to the fact that the colonizing period in the history of the United States

* According to the *British Census Report*, 1891, the native population shows stationary habits of a very decided character. In 1871, 74.04 per cent. of population were resident in native county; in 1881, 75.19; in 1891, 74.86.

It would appear that though emigration to foreign countries increased enormously between 1881 and 1891, there was no corresponding increase in the migration within the borders of England and Wales themselves, notwithstanding the increased facilities of locomotion, the extended knowledge possessed by the working classes as to the conditions of life in parts outside their immediate localities. *English Census Report*, 1891, vol. iv., p. 61.

has closed, and that since the available land in the West has been filled up the classic advice, "Go West, young man," has lost much of its appropriateness. It is, however, not merely migration from East to West, or from State to State, that has decreased. There is also less movement within the States and less movement from the rural portions of the States to the cities. The same phenomenon is observable, though in a less marked degree, in England, France, and Canada, as appears from the following table, which is taken, so far as United States, France, and England is concerned, from an article by Prof. Wilcox in *The Political Science Quarterly.**

PERCENTAGE OF POPULATION RESIDENT IN UNIT AREA OF BIRTH IN CENSUS.

ENG. AND WALES.		FRANCE.		CANADA.		UNITED STATES.	
Year.	Unit Area. County.	Year.	Unit Area. Department.	Year.	Unit Area. Province.	Year.	Unit Area. State.
1871	74.04	1866	88.4	1871	97.5	1870	73.8
1881	75.19	1876	85.7	1881	96.0	1880	77.9
1891	74.86	1886	84.0	1891	95.0	1890	79.1
		1891	83.2				

Prof. Wilcox also gives tables * of internal migration for the two States Massachusetts and New York, to demonstrate that not only inter-State but also intra-State migration is declining.

* Vol. x., No. 4.

PERCENTAGE OF TOTAL NATIVES OF NEW YORK RESIDENT IN

	1855.	1865.	1875.
County of birth	56.0	55.3	57.8
Some other county of New York	19.9	17.8	16.0
Some other State	24.2	26.5	26.2

PERCENTAGE OF TOTAL NATIVES OF MASSACHUSETTS RESIDENT IN

	1875.	1885.
Town of birth	48.61	51.00
Some other town in Massachusetts	30.62	29.46
Some other State	20.77	19.54

The migration from province to province within the Dominion of Canada seems remarkably small, the reason being that the "exodus" to the United States, as it has been called, is, so far as the difficulties of and obstacles to movement are concerned, really of the nature of a migration from the rural parts of a country to the industrial centres. The Canadian figures show a slight increase in the amount of migration, but do not form a serious exception to the general tendency; for the period covered is that in which the great railways have for the first time opened up the country. The table on p. 206 shows the number per thousand resident in each of the four original provinces of the Dominion, in the three census years, who were born in the various provinces of the Dominion.

These are hardly the results we should have expected. The period covered by these statistics is a

period of railroad expansion; great trunk lines have been built and parts of the countries which had been separated more completely than if the ocean had rolled between have been bound together by ties of intercourse and communication. The receipts from passenger traffic have increased year by year until it seems as if the whole population were continuously on the move. With improved means of communication has come increased knowledge of the conditions of industry in other districts and States; but

THE NUMBER PER THOUSAND OF NATIVE-BORN CANADIANS RESIDENT IN THE FOUR ORIGINAL PROVINCES AND MANITOBA ACCORDING TO THE PROVINCE OF BIRTH.

PROVINCE OF RESIDENCE.	CENSUS YEAR.	PROVINCE OF BIRTH.							
		Ont.	Queb.	N. B.	N. S.	P. E. I.	Man.	B. C.	N.W.T.
New Brunswick	1871	0.9	9.9	959.5	21.1	9.8*	0.0	0.0	0.0
	1881	1.0	10.7	957.4	21.2	9.3	0.0	0.0	0.0
	1891	1.1	12.0	956.2	18.4	9.0	0.0	0.0	0.0
Nova Scotia	1871	0.6	0.9	9.5	981.4	8.9*	0.0	0.0	0.0
	1881	0.9	1.0	10.9	982.2	3.9	0.1		
	1891	1.7	1.3	13.0	981.6	4.0	0.1		
Quebec	1871	6.2	991.3	0.8	0.6	0.8*	0.1		
	1881	8.0	989.8	0.9	0.6	0.4	0.0	0.0	0.0
	1891	11.0	985.9	1.0	0.9	0.3	0.0	0.0	0.0
Ontario	1871	959.5	34.3	2.4	3.0	0.9*	0.1		
	1881	960.2	33.8	1.9	2.4	0.4	0.1		
	1891	966.1	36.4	1.6	2.7	0.4	0.6	0.1	0.1
Manitoba	1871	—	—	—	—	—	—	—	—
	1881	398.4	83.0	7.1	17.0	3.2	375.4	0.5	133.7
	1891	431.6	70.0	6.6	12.9	2.1	459.6	0.5	7.2

* Including natives of Newfoundland.

migration seems to have reached a maximum just when it was being rendered easier.

The result is somewhat surprising. There is almost complete freedom of movement permitted. The laborer is no longer hampered in his movements by laws of settlement, but may move wherever and whenever he thinks fit. In some places old mediæval ideas restricting the right of migration have survived or been revived and enforced. The conservative reaction in Germany reveals itself in proposals to restrict the migrations of the agricultural population. East Prussia has been drained of a large part of its agricultural labor; and the organs of the great land-owners demand renewed restrictions on the pretext that so long as free migration is permitted there can be no adequate check to the spread of epidemics. The modern demands for restriction, however, come chiefly from the working classes. America for the Americans, Canada for the Canadians, London labor for London laborers, are cries which demand restriction of migration, in fact, if not in law. It is frequently little more than a sentiment; but in democratic countries the sentiment is sometimes embodied in legislation. In Canada, there has been, in places, a reincarnation of mediæval ideas regarding the right of movement. In Fredericton and St. John, N. B., and elsewhere, a tax of twenty dollars is levied upon imported labor. The argument is that it is not fair that those who reside in the city and pay their proper share of the taxes should be exposed to the competition of outsiders who may come in,

earn wages, and depart without ever being domiciled in the city and subject to taxation. In the spring of 1896, there was a dispute in St. John between the Ship-Laborers' Union and the managers of the Donaldson Line of steamers. The managers refused to grant the Union demand for higher wages and imported a trainload of men from Montreal, which was then icebound. After partial failure of the attempt to bring the "blacklegs" "out," the Union threatened to have the city by-law enforced. There was some talk of appealing to the courts against the by-law, which, it was claimed, was a violation of the British North America Act; but no further steps * were taken, and the result was a victory for the Ship-Laborers' Union.†

The growing strength of local patriotism, combined

* Since the above was written the city by-law of St. John has been amended, and the tax or license fee paid by non-resident labor has been reduced to seven dollars and a half, or about a dollar more than a laborer pays for his poll tax.

† The Contract-Labor Law in the United States is an instance of the same tendency, although the object of this measure is to restrict the right of immigration; but the Corliss bill may be classed as a measure whose object was really to restrict the right of migration. The measure proposed to forbid any man from earning wages in the United States who did not reside there. It is to be hoped that the advocates of the measure did not base their support of it upon the accuracy of a petition in favor of it presented by citizens of the United States living close to the Canadian border. The petition averred that between two and three hundred thousand Canadians crossed the border every morning and, after earning the higher rate of wages in the States, crossed back again at night to their Canadian home—a number which probably exceeds the total population of Canada living within five miles of the border line.

with the increasing political power of the working classes, has, of late years, tended to reduce the volume of migration, but hardly sufficiently to account for the diminution exhibited in the tables given above. The decline of migration is possibly, also, in part due to the increasing tendency towards localization of industry. Where an industry is strictly localized, migration offers no escape from trade depression; and, although it sometimes appears as if an industry were localized in more districts than one, yet, on examination, the industry is seen to be two or three different industries included under the one name. The localization of industry promotes the organization of labor in trade-unions; and we have seen that the trade-unions, if they do not positively discourage, certainly no longer encourage the migratory tendency by travelling benefits.* In one way the union undoubtedly does promote migration indirectly. The standard wage is higher in the cities than in the country, and the best workers seek the centres of population and industry; while those who are unable, from any cause, to earn the standard wage in the metropolis and find it difficult, on account of the trade-union antipathy to a system of graded wages, to obtain any employment, tend to migrate to the provinces.

Again, if it be true that a larger proportion of the working classes are aiming at owning their own houses, this would undoubtedly tend to hinder migration. The evidence is too fragmentary to

* Chapter V., p. 179.

allow us to decide whether they do so aim. If they do, we need not, as some writers and speakers, regret the tendency.* Mobility does not, on the whole, tend to promote good citizenship. Ownership undoubtedly implies greater fixity, and in so far as every trade, and, in a special degree, localized trades, are still subject to local variations, fixity of residence may imply fluctuations in wages and employment. On the other hand, when trade revives, the man on the spot is likely to reap the immediate benefits. *A priori*, we might conclude that mobility will secure an arithmetical equality of wages and employment; that the wages of those who reside permanently in a district will fluctuate more according to the state of trade, and that their average will be higher than the average of those who move from place to place; and this *a priori* conclusion is supported by the following comparison of the two classes of owner occupiers and tenant occupiers in respect of wages and days employed in the year, which is taken from the report of the Ontario Bureau of Industries for 1889. The comparison covers a sufficiently wide area to secure that accidental variations do not much influence the results. In 1888 returns were received from 576 owner occupiers resident in twenty-one towns in different parts of the province, and in 1889, 842. The tenants in 1888 numbered 1272, and in 1889, 1634. Another class is included in the first table, viz., boarders, but the number, forty, is too small to

* See the reference to Bishop Fraser of Manchester, in Price's *Industrial Peace*, p. 114.

admit any inference. The boarders, probably, are found mainly in the larger towns where the average wage is comparatively high.

COMPARATIVE TABLE OF EARNINGS AND DAYS EMPLOYED IN THE YEAR 1889, FROM RETURNS MADE BY MALE WORKERS, OVER SIXTEEN, WITH DEPENDENTS.

STATUS.	NUMBER OF RETURNS.	DAYS EMPLOYED IN YEAR.	TOTAL EARNINGS, INCLUDING THOSE OF DEPENDENTS.
Owners	842	272.06	$467.67
Tenants	1634	269.34	449.33
Boarders	40	265.80	450.93

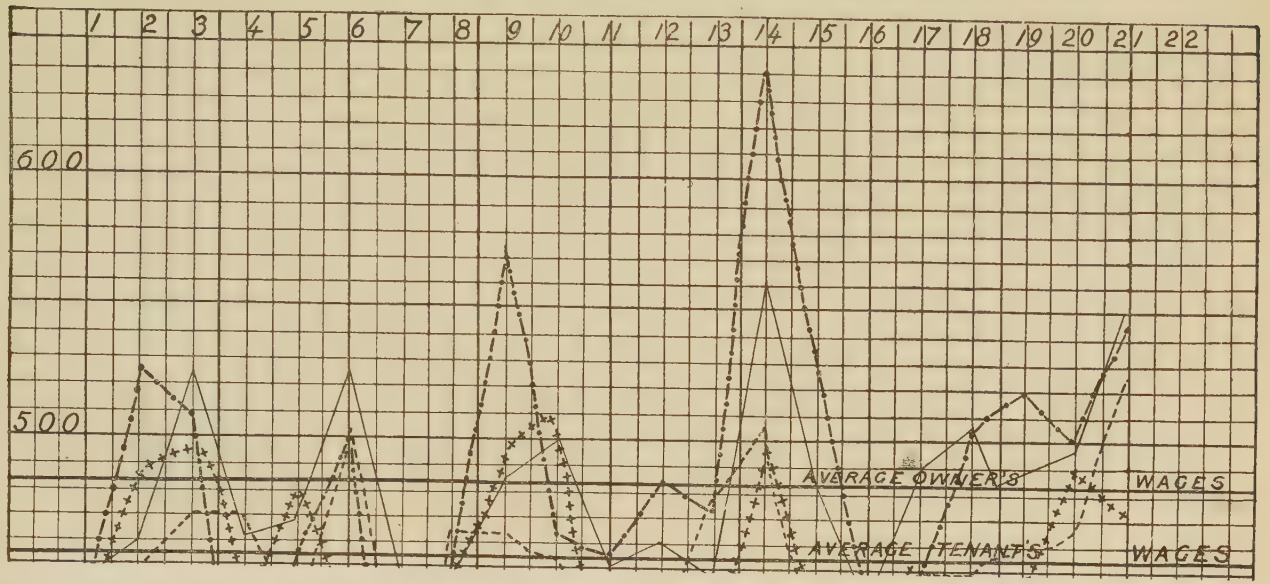
The second table, with the accompanying diagram, is intended to show the local and temporary variations of wages and time employed, of each of the two classes in the two years 1888 and 1889. The average of wages and time employed therein set down is the average of the two years, not of 1889 alone, as in the first table.

We find from the comparison (1) that for the tenant occupiers there are fewer fluctuations above or below the average either in respect of wages or of the number of days employed during each year: from which we may conclude that the greater the mobility of labor the stronger the tendency towards an arithmetical average. We find (2) that the average wage of the owner and the average of the number of days employed are considerably higher than the corresponding average for the occupier; from which we may justly conclude that permanence of

COMPARATIVE TABLE (WITH DIAGRAM) OF TOTAL YEARLY EARNINGS (AND NUMBER OF DAYS EMPLOYED IN YEAR) OF LABORERS AND ARTISANS IN TWENTY-ONE CANADIAN TOWNS.

	Bowmanville.	Brantford.	Brockville.	Carleton Place.	Chatham.	Cobourg.	Cornwall.	Galt.	Gananoque.	Guelph.	Hamilton.	Kingston.	London.	Oshawa.	Ottawa.	Perth.	Peterborough.	St. Catharines.	St. Thomas.	Stratford.	Toronto.	
Average total earnings in dollars.	436	528	507	381	454	498	354	454	576	463	456	483	473	637	521	438	443	504	520	500	546	Owners, 1888.
	422	451	471	465	430	497	372	462	462	452	417	482	436	472	505	422	418	448	451	463	526	Tenants, 1888.
	441	461	527	463	468	526	445	446	487	500	452	460	449	564	488	436	490	503	484	498	548	Owners, 1889.
	448	484	491	423	476	438	420	447	495	508	418	379	431	493	440	425	455	424	440	491	474	Tenants, 1889.
Average days employed.	267	268	293	276	251	284	269	247	280	265	246	277	275	288	246	259	241	254	295	285	257	Owners, 1888.
	258	270	275	282	250	289	251	277	261	281	229	280	268	271	228	262	238	255	276	287	270	Tenants, 1888.
	285	267	281	306	267	285	258	257	246	275	247	252	279	283	254	253	268	270	327	293	280	Owners, 1889.
	284	285	278	275	271	288	266	264	274	287	244	244	271	273	255	270	281	263	306	288	262	Tenants, 1889.
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	

DIAGRAM ILLUSTRATING COMPARATIVE TABLE OF WAGES AND REGULARITY OF EMPLOYMENT.



residence, which is admittedly desirable from a social and ethical point of view, is not an economic drawback. We may therefore dismiss the fears of many philanthropic economists and publicists that if the working classes own the houses they live in, they must necessarily be in a worse position as bargainers in the labor market.*

The real cause of the diminution in the volume of migration, to which the social phenomena already mentioned are only contributory causes, is that, improvement of the means of communication, which, at first sight, seems to facilitate, does not really encourage migration. The improved means of communication have levelled wages up to such an extent that differences in wages are no longer, to a large extent, at least, accidental, but in a measure correspond with differences in efficiency and with differences in the cost of living. The decrease in the volume of migration does not mean a slackening of competiton. The influence of competition, on the contrary, has outstripped the actual mobility of labor. As between good players the game is often

* There is, in some places, a conviction among the working classes that a laborer who owns his house is at the same disadvantage as the laborer who is compelled to live in a house provided and owned by his employer, and sometimes at a worse, for a company tenant is generally preferred when work is scarce. In a small town the laborer may be practically at the mercy of an unscrupulous employer, and, though the cases may be few in which such an unscrupulous use of power is made, when such an abuse occurs a grave social crime is committed. *Cp.* on this point *Report of Connecticut Labor Bureau*, 1885, pp. 84, 85.

decided by a show of cards, so, without recourse to the actual step of migration, competition has levelled wages up and removed the necessity of, and inducement to, migration. The knowledge that change is always possible has at the same time weakened the desire for change and the economic need of mobility. Mr. Garnier declares that, in England at least, whatever may be the case in Scotland, the system of yearly hiring of agricultural laborers induces more men to wander from master to master at the annual hiring fairs than a system of weekly contracts does. "The weekly contracts with their cottage laborers, strange to say, seem to promote more settled habits. These latter men, feeling that they can leave if they choose, elect to stay." * Similarly, the knowledge that the Bank had power to suspend the Bank Charter Act, has twice allayed a panic without the necessity of actual suspension. Competition acts on the minds of men; and the same results may be achieved either by actual display of power or by the knowledge that the power is there if need arise. One instance must suffice. The amount of migration † between Ontario and Quebec is not very great, and, since the majority of the migrants are resident in a few border counties, is actually less than it appears, yet there has been a steady levelling up of the average wages earned in Quebec to the average earned in Ontario. If we take the average wage in Ontario in each of the three census years 1871, 1881,

* Garnier, *Annals of the British Peasantry*, p. 415.

† *Cp.* table, p. 206.

1891, as, in each case, equivalent to one hundred, the corresponding averages for Quebec are as follows*:

	ONTARIO.	QUEBEC.
1871	100	73
1881	100	83
1891	100	90

So, if migration is decreasing in volume, and mobility is no longer the important wages factor it has been conceived to be, the result—competition—is still being accomplished.

Migration arises from a more purely economic motive than emigration. The volume of emigrants from Europe is still swelled from year to year by those whose motives for changing are political or social, or, at times, even religious. The political motive is almost entirely absent as an incentive to migration, though social motives may induce many to seek the large cities. There can be no doubt that all "that makes the difference between Mile End fair on a Saturday night, and a dark and muddy country lane with no glimmer of light and with nothing to do," † has something to do with the volume of migration; but, in the main, migration is an economic movement undertaken with a deliberate idea of bettering the material condition. There are elements in the movement which are not economic.

* *Census of Canada*, 1891, Bulletin xviii., p. 8.

† H. Llewellyn Smith, Booth's *Life and Labor of the People* vol. iii., p. 75: *cp. Life in Our Villages*, Chapter I.

There is the drift of the tramps and the beggars and the characterless to the great cities where odd jobs and charity and oblivion may be found. The movement of women is only partly due to economic causes; and women form the majority of those who migrate.* The general direction of the economic movement has been the rural districts to the cities, though there has also been a reverse movement back to the country. The volume of the migration from the towns to the country (not including in this volume the great modern movement of population towards the suburbs of the cities) cannot be great since it is a movement of the old and the successful. As the young and vigorous move towards the towns where, though the cost of living is high, wages are proportionately as high and seem higher: so the old, who have retired from active work, move to the

* The limited number of employments open to women, and the localization of most of these within narrow areas, have tended to increase the volume of female migration. The excess of females in textile towns is not due to an exodus of the males, but to migration from the surrounding districts of families, the majority of the children in which are girls. The practice of depending in part for the family support on the supplemental earnings of the regular or casual work of the wife and children sometimes checks migration from the districts where there is a demand for female labor and generally promotes migration to such a district. A laborer who counts on these supplemental earnings may not always follow his own individual economic advantage and go where there is the greatest demand for his labor; because in the new locality his wife and daughters could find no employment. On the other hand, he may move to a district where the demand for his labor is less in order to find employment for a growing family of daughters.

country to take advantage of the lower cost of living.

The movement towards the cities is an adult movement. Under modern industrial conditions the system of apprenticeship is breaking down and no substitute has yet been found. It has broken down, however, only in the large cities and industrial centres. In the workshop, in the country village, the apprentice is still faithfully taught the whole art and craft of his trade; and he learns not a special department, but the whole trade as it could not possibly be learned in a large city, even in shops where apprentices are taken. The demand for trained artisans in the cities is great; and, since in the city workshops apprentices are no longer trained, the demand must be met from the outside. The movement to the cities is produced by "suction from within" rather than by "pressure from without." It is not because trade is depressed in the country but because the demand is so great in the town that the number of trained workmen migrating to the cities is so large. If the town were not recruited from the country, industry would languish and fail. The conditions of town life are so debilitating that were it not that the city population is being continuously invigorated by the infusion of fresh country blood the cities would soon become industrially ineffective. The economic debt which the cities owe to the rural districts is incalculable. They receive the flower of the industrial army. The great proportion of the migrants to the city are between the

ages of fifteen and thirty.* London receives such a number of migrants between these ages that the percentage of her population between these limits is much higher than the corresponding percentage for the whole country. The migrants are, as might be expected, markedly successful. The poverty in the various districts of London is almost in an inverse ratio to the proportion of provincials resident in the district. Where the dark colors are laid down in Booth's map of London poverty, there is resident only a very small percentage of immigrants from the country. The reason is that the migrants are picked men, and in competition with city-bred labor, can easily secure the best positions. The percentage of failures amongst them is surprisingly small.

Mr. Ravenstein has put forward a law of the movement which he calls the law of migration by stages. He found that, according to the English census returns, the amount of migration was, roughly, inversely as the distance of the migrants from their counties of birth; and, from this fact, he drew the conclusion that, in spite of the great attractions of large cities, the set of migration is rarely directly and immediately to them. The migrant seems to approach gradually, resting by the way to make surer of his footing, and, as it were, to hesitate before

* It is significant that eighty-three per cent. of the failures occur among those who left their homes after reaching the age of twenty-five. Both for the migrant and the emigrant twenty-five seems to be the limit age for which success is possible. After that year the individual seems to lose the energy and the adaptability which are essential.

making the plunge. Many never reach the destination, but remain at some of the intermediate stages. Short-distance migration is much more frequent than long-distance migration. Mr. Llewellyn Smith* has ingeniously illustrated and supplemented Mr. Ravenstein's theory by dividing England and Wales into a series of rings of counties, in a roughly semi-circular arrangement round London, to show how, the greater the distance, the smaller the number of migrants to London. The results are given in the following table:

RING.	AVERAGE DISTANCE FROM LONDON.	NUMBER OF PERSONS PER 1000 OF POPULATION OF EACH RING LIVING IN LONDON.
1	23.8 miles	166.0
2	52.5 "	121.4
3	90.9 "	61.2
4	126.0 "	32.0
5	175.7 "	16.2†
6	236.9 "	24.9

As a further illustration of Mr. Ravenstein's law, Mr. Smith shows that the average age of the migrants from the more distant rings is higher than the average age of those who come from the home counties. If long-distance migration takes place by stages it is obvious that the age of the long-distance migrant will be somewhat above the average age of the migrants when he reaches London.

* Booth, *op. cit.*, vol. iii., p. 67; see also *ibid.*, p. 126.

† The figures here show the disturbing influence of the attraction of the manufacturing centres of Lancashire and Yorkshire.

RING.	PERCENTAGE OF MIGRANTS UNDER TWENTY.	DITTO OVER TWENTY.	DISTANCE.
1	22.4	77.6	23.8
2	18.1	81.9	52.5
3	16.8	83.2	90.9
4	15.4	84.6	126.0
5	19.1	80.9*	175.9
6.	15.9	84.1	236.9

The law of migration by stages must be slightly modified to take account of facilities of access and travel. There is a larger proportional movement from Scotland to London than from Scotland to Birmingham or Leeds. London seems much nearer than Birmingham and its attraction is much more actual. In general, where there is communication by water there will be a relatively greater migration.†

The exodus from the Maritime provinces of Canada has most of the characteristics of a migration. The emigrants go to a country where their own language is spoken and the same customs are observed; and the direction of the movement is towards the large cities. In this case the law of migration by stages is again partially set aside on account of facilities of access. The migration is not to the State of Maine,

* The figures here show the disturbing influence of the attraction of the manufacturing centres of Lancashire and Yorkshire.

† The greater proportion (*i. e.*, of migrants to London), considering distance, is that shown by Devonshire, Somerset, Dorset, and Cornwall, which collectively send 24.7 per cent. of their migrants into London. Here the geographical situation, giving, practically, only one degree of freedom of movement to the migrant, is doubtless a great operative cause. In general, it will be found that a disproportionate amount of migration takes place to London from counties with a seaboard. Booth, *op. cit.*, vol. iii., p. 72.

which geographically lies nearest to the Maritime provinces, but to the State of Massachusetts. In the State of Maine are found 52,076 Canadians; in the State of Massachusetts 207,601.

The distribution of Canadians in the United States is as follows:

North Atlantic division	490,229
South Atlantic division	5,412
North Central division	401,660
South Central division	8,153
Western division	75,484
United States	980,938

The migration to three of those divisions is too small to be governed by any discoverable law except the law of health-seeking. Fully one fifth of the Canadians in the South Atlantic division are resident in Florida; and more than a third of those resident in the South Central division have sought Texas to prolong their days. In the Western division 26,028 have fled to California from the rigors of the Canadian winter. The details of the other two divisions, according to States, give rather contradictory results. The attraction to the North Atlantic division is towards the industrial and manufacturing States, which are as different as possible from the Maritime provinces of New Brunswick, Nova Scotia, and Prince Edward Island. New York and Massachusetts together absorb three fifths of the total migration. In the North Central division, on the other hand, the attraction is mainly, if we except Illinois, in which is Chicago, and Ohio, to States where the main employment is in agriculture or lumbering;

and in neither case do the nearest States to the Canadian centres of population absorb anything like the share they should, if the law of migration by stages were unconditionally true. Michigan, it is true, is immediately contiguous at one point with the province of Ontario; but 30,466, out of a total 181,416 Canadians, have travelled across the breadth of Ontario from Quebec to reach the lumber woods of Michigan. The fact, however, that Ohio absorbs more than three times as many Canadians as Indiana; that Wisconsin has twice as many, and Minnesota two and one half times as many as Iowa; that North Dakota has two and one half times as many as South Dakota, and as many as Nebraska and Kansas taken together; while, in the Western division, in spite of equal facilities of access by sea from British Columbia, Washington has attracted three times as many as Oregon, which lies directly to the south of it, seems to give some support to Mr. Ravenstein's law.

NORTH ATLANTIC DIVISION.	
Maine	52,076
New Hampshire	46,321
Vermont	25,004
Massachusetts	207,601
Rhode Island	27,934
Connecticut	21,231
New York	93,193
New Jersey	4,698
Pennsylvania	12,171
Total	490,229

NORTH CENTRAL DIVISION.	
Ohio	16,575
Indiana	4,954
Illinois	39,525
Michigan	181,416
Wisconsin	33,163
Minnesota	43,580
Iowa	17,465
Missouri	8,525
North Dakota	23,045
South Dakota	9,493
Nebraska	12,105
Kansas	11,874
Total	401,660

In addition to the migration already discussed, there is a kind which does not appear in the census tables; because the migrant does not seek a domicile in the district into which he moves. His sojourn there is for the season; and, at the end of the season, he returns to his old home. This kind of migration represents the maximum of economic mobility. The individual sometimes travels very far afield in search of employment. Some trades are subject to periodical migrations and labor circulates freely between different parts of the country. The seasons in which trade is brisk are sometimes different in different parts of the country. There is, for instance, a circulation of boot- and shoemakers between London and provincial towns such as Leicester and Norwich; there being, at the same time, a fairly steady movement of labor in various parts of England following the transfer of industry away from the sphere of trade-union influence. It is but seldom, however, that the seasonal variations of industry lead to considerable migration, except in the case of agriculture and trades dependent on the seasons. The Irish harvesters who come in large numbers across the Channel to meet the increased demand for agricultural labor at harvest time may be taken as a typical instance. In 1890, according to the annual return of the Registrar-General for Ireland, in the month of June, 14,081 persons left their homes to seek employment as agricultural laborers elsewhere. Of these seasonal migrants 84.4 per cent. sought work in England, 12.2 per cent. in Scotland, and 4.4 per

cent. in Ireland, mainly in Leinster, in the counties around Dublin. The migrants form a fairly large percentage of the total male adult population, amounting in County Mayo to 15.3 of the total adult male population of the county. The same migratory tendency during harvest season is observable in Germany, where there is a movement of agricultural laborers out of, and into, the eastern provinces of the kingdom of Prussia. In 1892, 96,894 laborers left the four eastern provinces, East Prussia, West Prussia, Silesia, and Posen, and moved westward in search of work, to return to their homes at the end of the season; while in the same year nearly twenty thousand immigrants from Russia and Galicia sought temporary employment in these four provinces. From some countries, the volume of temporary emigration is almost as large as the volume of the real and permanent. In 1892, from Italy, 107,025 emigrated in search of work, for the most part, in the spring of the year, to various European countries, chiefly to France, Austria, Switzerland, and Germany. The majority of the migrants naturally come from the frontier provinces, and in the case of Udine and Belluno, more than seven per cent. of the whole population seek work in other European countries every year.* There is a similar movement across the Canadian frontier into the United States. The seasonal industry of lumbering, which can be followed in the winter only,

* Mayo-Smith, *Statistics and Sociology*, pp. 318, 330; *cf.* Brentano's *Hours, Wages, and Production*, pp. 41, 42.

causes an annual migration from the cultivated portions of the country to the woods and in the spring back again. When the lumberman does not follow the alternate trades of farming and lumbering, he has his summer at his own disposal. Too often, though not so often as in former years, the summer is spent in loafing; but, of late, with the improved means of communication and increased knowledge of industrial opportunities, there has sprung up a habit of sojourning in the United States during the summer, where employment is obtained mainly as bricklayers and bricklayers' laborers. The seasons fit into each other. The frost and snow which throw the bricklayers out of employment render possible the work in the woods. It is perhaps commoner for the summer to be spent in Canada on the farm, and the winter in the New England mills and factories; and a great part of objection raised to Canadian labor is due to this practice of the French Canadian.

The Canadian and United States trade-unions make common cause against the trans-Atlantic migrant who crosses to work in Montreal and New York during the season and returns for the winter to Scotland and England, where, in the milder climate, work can generally be carried on throughout the winter. Masons and bricklayers are said to be the chief offenders; but, in spite of cheap fares and quick transit, the competition of such migrants cannot be very serious. It is alleged in Canada that these men come in at the opening of the year, and not having to face the rigors and the lack of employment char-

acteristic of the Canadian winter, can afford to work for lower wages than the Canadian workman. In Canada work is scarce in winter, and generally paid at a lower rate; and in many trades is impossible. Consequently, an artisan must make up by the higher wages in the summer for the slack times and higher cost of living in the winter.

It is hardly necessary to take advantage of human weakness before numbers running into millions, to have the importance of emigration recognized. With whatever deductions the figures require to be taken, on account of the impossibility of forming an estimate of the net or real emigration, there is no denying the importance of the movement they exhibit. Less striking, perhaps, but no less profound in its consequences, and, in reality, no less imposing in its silent magnitude than the barbarian invasions which overthrew the Roman Empire, the tide of emigration has set steadily from the old world to the new for nearly a hundred years, and shows no signs of diminishing in force. Since the beginning of the century, in every year, hundreds of thousands of the strength and manhood of every State in Europe have abjured the old allegiance, have broken the old ties and the old associations and set themselves resolutely to new conditions in a distant part of the world. Many have gone among strangers, who were yet kinsfolk, speaking the same language and inheriting the same political traditions; but to the great majority emigration has meant the profound change of home and language and customs. The

results of this movement are incalculable. New continents have been opened up, that larger populations might be supported at home; new markets have been established, that industry might be more economically conducted; new wealth has been created; new resources developed; new nations called into being.

The nations of the old world have given of their abundance that the nations of the new might be built up; but we cannot estimate the greatness or the value of the gift by the rough-and-ready method of regarding every emigrant as an irretrievable loss and every immigrant as a great gain. The population of the British Isles would not have been in excess of fifty millions if the fifteen millions who have left her shores had remained within her sea-girt borders. It would have been no larger than it is at present, and it is possible it might have been a great deal less. Whatever may be the case under more ideal conditions of land tenure (and Dr. Geffchen * shows that emigration from the various provinces of Germany bears a distinctly inverse relation to the average size of the holding), at present the British Isles could not produce food for thirty-eight millions without serious economic loss and industrial derangement. A much larger proportion of

* Schonberg's *Handbuch*, ii., Auf. iii., p. 1063. Die Ursachen liegen teils in der Erträgsfahigkeit des Bodens, noch mehr aber in dessen Verteilung; Ostpreussen ist durchschnittlich nicht sehr fruchtbar und hat doch wenig Auswanderung, Mechlenburg ist fruchtbar und hat starke Auswanderung, in ersterem ist mehr Bodenverteilung, in letzterem herrschen die Latifundien.

the population would require to devote itself to the production of food, and England's economic position as an industrial and manufacturing nation could not be maintained. Her extreme industrial specialization has been possible because the opening up and settling of virgin continents have given her a cheaper supply of food than she could have obtained from her own soil; and have, at the same time, widened the market for the products of her mills and factories. The area of the world's market has been extended by the movement; and productive capacity has been increased to a proportional extent. The emigrants departed only to make room for a corresponding number of workers. As we saw in Chapter V., a large number of the emigrants have risen at least nominally in the ranks of labor; and, so far as this rise from the ranks of the unskilled has been real, there has been a great gain to the productive capabilities of the world. The great volume of emigration has permitted a more economical use of the world's resources; and to this extent emigration has been fruitful of gain. It cannot be said that the gain has been distributed in proportion to the contributions made. The emigrants themselves in the new country have naturally engrossed a greater part of it; but what of gain there has been for the countries of origin has not been distributed according to the contributions made to the volume of emigration. Nations have shared in it which have contributed nothing. The trade of France with the United States has grown during the last sev-

enty years as steadily as the trade of Germany: yet France has sent none of her children beyond the seas, while Germany has given more than six millions. The exports of the United Kingdom to the United States have risen from rather less than four millions sterling in 1820 to more than thirty-two millions in 1890; and the increase does not seem to be as great as might be expected in return for a contribution of eight or nine millions of people; especially, when we remember that the total British export trade has increased, in the same period, in almost the same ratio, from thirty-six millions to two hundred and sixty-three. We cannot say how great an increased resultant of trade we might have looked for; and, consequently, we have no means of measuring absolutely the loss and gain by emigration. France has undoubtedly gained because she has in the beginning lost little, and her gains are therefore net gains. Germany has lost as much as any nation because all her citizens have emigrated to foreign countries. The United Kingdom has not lost so much proportionally; because, though the great majority of her emigrants have gone to countries independent of their native land, a certain proportion have settled in the British colonies and have maintained closer ties with the mother country than have those who settled in the United States. This gives us one relative means of estimating the loss and gain of emigration. Each colonist buys British produce to the amount of one hundred and sixty-eight shillings, while the emigrant to the United

States buys only forty-seven shillings' worth—a difference of one hundred and twenty-one shillings per head. We need not attempt to determine how far trade follows the flag; but it is obvious that if the eight or nine millions who have left the British Isles for the United States had gone to the British colonies, British export trade would have been larger by thirty or forty millions per annum, or, making allowance for an earlier and completer industrial development of the colonies consequent upon the larger emigration, by at least twenty millions. Even to the colonies Englishmen go out, as the Corcyrans did of old, "on a footing of equality with, not of slavery to, those that remained behind," and since the colonial trade was freed from all preferences to English goods, we have no guarantee that, as colonists, they buy all that a corresponding number at home would have bought. It is only a relative means of estimating the loss by emigration. J. S. Mill declares that "there needs be no hesitation in affirming that colonization, in the present state of the world, is the best affair of business in which the capital of an old and wealthy country can engage" *; but the main result of emigration, at any rate, for most European nations seems to be the creation and fostering of industrial and commercial rivals. Germany has all along suffered more or less from the competition of the United States as a food producer and as a competitor for the English market. English agricultural interests have likewise suffered; and we seem to be at the beginning of a period of

* *Principles of Political Economy* (pop. ed.), p. 586.

industrial competition between England and the United States. As Adam Smith says, in another connection, "the inconveniences" of emigration "every country has engrossed to itself completely. The advantages . . . it has been obliged to share with many other countries." *

On the other hand the addition to the population in the receiving countries cannot be regarded as pure gain. The population of the United States has during the emigration period been augmented by fifteen millions of immigrants; but the rate of increase of the population has remained stationary during the period or actually fallen. It may seem too much to say that the population of the United States would have been as large as, or larger than, it is to-day, had there been no immigration; but it is undoubtedly true that immigration has checked what would otherwise have been the natural rate of increase. The fact is clearly brought out in the following table:

YEAR.	POPULATION.	INCREASE IN DECADE.	IMMIGRATION IN DECADE.	PERCENTAGE OF INCREASE IN DECADE.		
				Total.	By Immigration.	Natural.
1840	17,069,453	4,203,433	599,125	32.67	4.66	28.01
1850	23,191,876	6,122,423	1,713,251	35.87	10.04	25.83
1860	31,443,321	8,251,445	2,579,580	35.58	11.12	24.46
1870	38,558,371	7,115,050	2,278,425	22.63	7.25	15.38
1880	50,155,783	11,597,412	2,812,191	30.08	7.29	22.79
1890	62,622,250	12,466,467	5,246,613	24.86	10.46	14.40

* *Wealth of Nations* (Nicholson's ed.), p. 260.

Moreover, the countries of Europe have not always completed their contributions. They may give the labor; but without the opportunities for employing the labor the gift may be a burden; and the opportunities are limited by the wealth and capital of the country. In the United States, in 1890, the average amount of wealth per inhabitant exceeded one thousand dollars; and the average amount of wealth brought in by the immigrant certainly does not amount to one hundred dollars. We may not accept in its full extent the proposition that industry is limited by capital; and yet we must admit that in modern industry capital is indispensable. In 1890 the capital invested in the United States in mechanical and manufacturing industries alone amounted to $6,525,156,486, or rather more than one hundred dollars per head of the population, or $1384 per employee. To the fund of capital the immigrant can add little or nothing; and, consequently, to the degree in which the Wages-Fund Theory is true, immigration may prove a hardship to the receiving nation.

These, however, are only general considerations which might help us to decide whether emigration and immigration is a loss or gain; but they afford no means of estimating how much the gain or the loss actually is. Various methods * have been employed to obtain an approximate measure of the amount. The one generally employed consists in

* For a full discussion of these methods see Mayo-Smith, *Emigration*, c. 6.

forming some rough estimate of the cost of rearing and training a child till he arrives at industrial years, and then taking this amount as the measure of the loss to the country of origin and the gain to the country which receives him. To this amount is generally added the average amount of money in the shape of gold or drafts which the immigrant brings with him. Another and more elaborate method estimates the laborer's chances of life, according to the accepted standards, and then, after deducting from his total earnings, during the period he has still to live, the cost of maintaining him during that period, regards the surplus as the loss by each emigrant and the gain by each immigrant. These calculations and results are exceedingly interesting, and throw some light on the question of the balance of trade between nations, but do not go far to give us an accurate measure of loss and gain by emigration and immigration. They err in attempting to measure accurately what cannot be accurately measured; and are also open to the serious objection that they suppose labor to have some definite predetermined value apart from the opportunities it may be afforded of creating wealth. That it is a loss to a nation, however, to train up its children to manhood and then have to begin the process anew, when the strength and manhood of the nation seek a career in a foreign land, is a fact which cannot be disputed. The world, as a whole, may be a gainer by the process, but to the individual country of origin the process is not only a loss, but a disheartening loss. The

majority of the emigrants,* more than sixty per cent. of them, are adult males in the prime of their physical strength, and the drain is on the effective industrial population of a nation.

The grand totals of emigration and immigration have led many to adopt, somewhat unnecessarily, an alarmist tone. There is no country in danger of being depopulated on account of emigration and no country where the quantity rather than the quality affords real cause for alarm. Here and there there may be districts from which immigration has taken away all the energy and left nothing but stagnation and depression behind. In the Maritime provinces of Canada there are districts which have suffered very severely, more severely than the aggregates of the census reports at first indicate; but there, as elsewhere, over a large area, emigration can do little more than keep the population stationary and seldom carries out anything like the natural excess of births over deaths. As the volume of immigration is seldom distributed equally over the whole area of the receiving country, so it is rarely ever drawn in equal proportions from the districts of the country of origin. Particular districts may experience an actual decrease in population, but, as the following table, taken partly from Schonberg's *Handbuch*, and partly from Mayo-Smith's *Statistics and Sociology*, shows, there is little danger of a country being depopulated:

* See Fawcett's *Political Economy*, p. 602 (sixth ed).

COUNTRY.	EXCESS OF BIRTHS OVER DEATHS PER 1000 INHABITANTS.			EMIGRATION PER 1000 INHABITANTS TO COUNTRIES OUTSIDE EUROPE.		
	1885.	1888.	1892.	1885.	1888.	1892.
United Kingdom	12.3	11.9	10.54	5.7	7.5	5.51
Germany	11.3	12.9	17.6	2.2	2.0	2.23
Italy	11.5	9.8	10.14	2.7	6.8	3.53
France	2.3	1.1	0.5	0.1	0.6	0.14
Switzerland	6.4	7.8	8.7	2.3	2.8	2.64
Sweden	11.8	——	9.1	4.0	9.7	6.87
Norway	14.9	13.8	11.9	7.2	11.2	8.53
Denmark	11.7	13.4	10.1	2.1	4.0	4.76

From this table it is apparent that emigration is greatest in proportion from those countries where the natural excess of births over deaths is highest, and where the population increases but slowly, the volume of emigration is least. From France, from which there is practically no emigration, the excess of births over deaths is barely sufficient to keep the population stationary. The Maritime provinces of Canada present the somewhat unusual phenomenon of a large excess of births over deaths and a stationary population; and the phenomenon is accounted for by emigration to the United States. Unfortunately, no systematic records of the movements of population are kept; and, since 1885, the United States has ceased even to pretend to keep account of the immigration from British North America. In the census year 1891 the excess of births over deaths was for New Brunswick, 14.34 per thousand; for Prince Edward, 13.19 per thousand; for Nova Scotia,

10.84 per thousand. This large excess is removed by emigration; for the population of Nova Scotia increased in the decade 1881–91 only 2.23 per cent.; Prince Edward Island increased .17; and the population of New Brunswick has remained absolutely stationary.

The forces which have led to emigration have changed from generation to generation; but the only really efficient cause has been the economic. It is true that the economic motive began to operate only from the beginning of the present century. Early emigration was due to political or religious causes; but the volume of emigration never swelled to any dimensions till the economic motive began to operate.

In 1751, when the population of the American colonies, according to Bancroft, was more than eleven hundred thousand, Benjamin Franklin * estimated that the number of emigrants from whom this population was descended, did not amount to more than eighty thousand, of whom twenty thousand had arrived before 1640. Practically, we may say, that emigration from Europe did not begin till after the downfall of Napoleon had released Europe from the fears of immediate war and permitted the governments of Europe to slacken their hold upon their subjects. From 1820, the movement of the nations begins. Men sought no longer an Eldorado where even the poorest might grow rich without effort, or a retreat where they might worship God

* *Works*, vol. ii., p. 319.

according to the dictates of conscience; but a land of opportunity. The political motive has not been entirely absent during the present century, though it has usually been an economic motive under a political guise. The excessive drain from Italy during the last decade is unmistakably due to the tremendous and increasing burden of taxation. The desire to escape the blood tax of compulsory military service has swelled the volume of emigration from Germany. Even in 1872 and 1873, when the conditions of the laboring classes were "fast ungesund günstige," * more than ten thousand injunctions were, each year, taken out against intending emigrants on the ground that they had not served in the army; and as the burdens of militarism are increased, and grounds in mercy for exemption are restricted, larger numbers will annually seek to escape from the burden which already presses with crushing weight upon the manhood of Europe. The desire to escape from the burden of taxation is, however, only an economic motive slightly disguised. Pure political motives operate rather to restrict than to increase the volume, although the hereditary hate of the Irish for England still sustains a movement of which bad agrarian conditions have been the chief cause.

When we examine the statistics of emigration and immigration we discover that there have been cycles in the movement which correspond in a certain measure with the cycles in industry and commerce.

* Schonberg's *Handbuch*, ii., p. 1063.

The fluctuation in the volume of emigration is obviously an effect of the variations of industry; but the way in which the state of industry reacts on the volume of emigration is not very clear. There has been a good deal of discussion on the point whether emigration increases because of good times or of bad times. It is argued, on the one hand, though somewhat *a priori*, that the volume of emigration will be largest when industry is in the most flourishing condition, because only at such times are the working classes able to meet the necessary expenses. Prince Bismarck argued, in the Reichstag, on June 8, 1885, that emigration increased during periods of prosperity, and even went so far as to take the position, from which he afterwards receded somewhat, that it was the only cause of the increase. Emigration, however, as Dr. Geffchen * argues conclusively to the contrary, is not greatest from the most prosperous districts of Germany, but from the least prosperous. On the other hand, it is argued equally *a priori* that men leave their native country only under pressure of bad times. But those who are out of work have not the means; and, as a rule, those who have the means are not in a mood to make so great an experiment. The following comparative table of out-of-work and emigration statistics shows what relation has actually held in England between emigration and the state of trade. The out-of-work returns are taken from Mr. Burnett's Board of Trade Report.

* Schonberg's *Handbuch*, ii., p. 1060.

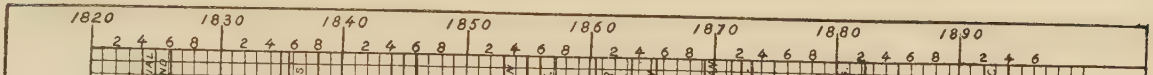
YEAR.	PERCENTAGE OUT OF WORK.	NET EMIGRATION OF BRITISH AND IRISH SUBJECTS.	PERCENTAGE OF EMIGRATION TO POPULATION.
1886	10.1	152,882	0.41
1887	8.6	196,012	0.53
1888	4.4	185,795	0.50
1889	1.8	150,725	0.40
1890	2.6	108,646	0.29
1891	4.45	115,470	0.30
1892	7.33	112,262	0.29
1893	7.9	106,695	0.27
1894	7.0	37,721	0.09
1895	5.8	75,763	0.19

These figures prove nothing very conclusively regarding the cause of emigration. The volume of emigration is practically equal in the best year and the worst year, in 1889 and in 1886. The volume of emigration is greatest when the state of trade is neither very good nor very bad. The period taken for comparison is too short to justify any sweeping conclusion. If any conclusion at all is justified, it is that the years of reviving trade after a period of depression are marked by an increase of emigration. The memories of bad times have not yet faded, and the first use many seem to make of more regular work and higher wages is to scrape together enough to leave the country.

When we turn to the figures of immigration into the United States, we find that the volume of migration has fluctuated to a very large extent, and that it has perfectly definite *maxima* and *minima* which correspond with the course of trade and industry. When we look closely into the fluctuations, we see them coincide very nearly with the changes in the

prosperity of the country which receives the immigrant: the concomitant variation proves that the connection between immigration and prosperity is very close, but whether the connection is of cause or of effect or of mutual determination does not clearly appear. I have compared in the following diagram the fluctuations in trade and in immigration, and with that purpose have selected as the best index of the relative prosperity of a new country like the United States the number of new miles of railroad opened each year since 1845. This is only one indication out of many, and might easily be supplemented by others, such as the earnings of the railroads, the bankruptcies in each year, the total exports and imports, the exports and imports of bullion; but the index selected is perhaps as clear as any other, and, in the case of the United States, which down to the last decade was still in process of expansion, is probably better adapted to show the fluctuations which have taken place in the business of the community. While there are still large areas to be opened up, advancing prosperity will always be marked by schemes for new railways: when trade is depressed and new enterprises are avoided fewer miles will be constructed. In the diagram the number of immigrants is shown in the left margin in thousands (fifty thousand to the half-inch); and the number of new miles of railroad constructed each year is shown in the right margin (one thousand to the half-inch). An examination of the diagram will give a clearer idea of the correspondence than many tables of

DIAGRAM SHOWING IMMIGRATION INTO AND CONDITION OF INDUSTRY IN U. S., 1820–1896.



figures. The comparison has only been carried back to 1845, on account of the necessities of the scale and of clearness. The diagram also exhibits an analysis of the main curve of immigration into its chief constituent elements, the German and the British, which latter again is analyzed in the curve of Irish immigration. The intention at first was to trace on the same diagram the fluctuations of German and British trade and industry; but the remarkable and unexpected closeness of the correspondence between the prosperity of the United States and the volume of immigration has rendered this unnecessary. The *maxima* and *minima* of the two curves practically coincide. The only variation of any importance occurred between 1845 and 1850, when the volume of immigration was large from the effect of the Irish famine. There are two explanations of this remarkable concomitant variation—one that the immigration is the cause of the expansion of trade and industry, the other that it is the effect of such expansion. The former is not often put forward as an explanation, and in this instance may be set aside, because the *maxima* and *minima* of trade and industry as indicated by the railroad expansion occur one or two years earlier than the corresponding *maxima* and *minima* of immigration. The increase or decrease in the amount of immigration is thus governed by the state of trade in the United States. Mr. Llewellyn Smith uses a phrase to describe the cause of migration from the provinces to London which we may adopt as an explanation of the

amount of immigration. It is, he says, due not to pressure from without but to suction from within. The expansion of trade and industry creates a demand for labor (and for labor of such a kind) as can best be supplied from the outside. Immigrants come in response to the invitation of industry and come to do work, as we shall see later, which the native American is unwilling to do. The state of the country of origin has little to do with determining the volume of emigration. Commercial depressions are experienced at the same time in the United Kingdom and in America, and emigration offers small chance of escape. From Italy and the southern countries of Europe the volume of emigration is almost entirely determined by the state of trade in the United States. A large proportion of these immigrants are assisted by remittances from the friends who have preceded them to America; and the amount of such remittances naturally decreases when trade is bad in America. Germany occupies the middle position. It is not so readily subject to commercial depressions and on the other hand German emigrants are not so dependent as Italians on remittances from America. We should expect, therefore, that the variations in the volume of German emigration would correspond less closely with the changes in industry in the United States; and this result is discernible. There was a large increase after 1853 in consequence of the bad times and scarcity in Germany; but since then the two curves have moved together.

The comparative table of excess of births over deaths and of emigration on page 235, disposed of the alarmist idea that continued emigration would result in depopulation. The fear that the industrial capacity of a nation may be fatally weakened will also give way if we consider the industrial character of the emigrants. No nation is really giving of its best. It gives at the most only a certain proportion of its unskilled labor and sends out but few of its artisans and factory hands to carry to new lands the secrets of traditional skill. In 1891, according to the gross estimate, 189,756 adults of British origin of whom 112,256 were males, left the United Kingdom. The adult males were classified according to occupation as follows:

Agricultural laborers	14,797
Unskilled laborers and miners	36,251
Occupation not stated	26,663
Mechanics and skilled laborers	9,717
Farmers and graziers	3,704
Clerks and shopkeepers	4,773
Professional men	11,467
Miscellaneous	4,614

So that if we include among the unskilled—as we may reasonably—those whose occupations are not stated, of 112,256 adult males, more than 70,000, or about sixty-three per cent., were unskilled laborers. From other countries, the proportion of unskilled laborers is still larger. From the point of view of production there is no cause for alarm; but, from the point of view of the wages question, there is,

also, unfortunately, little reason for regarding emigration as a means of lessening the competition for work. As the table on page 239 shows, the relief to the labor market is hardly ever given when it is most wanted. When ten per cent. of the working population of the country are out of work the emigration of less than one per cent. of the population or about two per cent. of the working population can hardly have much effect. Emigration, it is true, carries out a considerable proportion of the lower classes of labor.

Nothing, probably, would benefit the working classes more than the removal of the competition of the casually employed and semi-vicious class,* but the strenuous objections which the United States and the colonies raise against the practice of assisting paupers and criminals has effectively checked the tendency to relieve the country of the useless and the burdensome members of the community. The number actually turned back from New York is not large (in 1896, only 2799 out of 343,267, and of those sent back 776 were refused admission under the contract-labor law), but the deterrent effect must be great. The shipping agents are made unwilling to accept such passengers and therefore look more carefully into the conditions of each case. Voluntary agencies may continue to send children, and those who, though not criminal, are not exactly desirable settlers; but the relief to the poor-rates must be inconsiderable and the relief to the competition

* Booth, *Life and Labor*, vol. i., p. 162.

in the labor market still less. The general effect of emigration on the labor market and on the wages question either for good or evil cannot be very great. The relief afforded is not great enough, nor is it given at the right time, to be of much advantage. Indirectly, emigration, by extending the market and rendering possible economies in production may benefit the laboring classes. The export trade of a country will increase with the volume of emigration and there will be a larger dividend to distribute among the owners of the different factors of production. Emigration may also enable those of the working classes who remain behind to obtain food and other necessaries of life at a lower labor cost.

The effect of immigration on the wages question requires more serious consideration; because, on this point, discussion has not been confined to vague generalities. Definite assertions are made regarding the effect on wages and in many countries a definite policy of restriction has been adopted. It is alleged that immigration unnaturally increases competition in the labor market and increases above all unfair competition of underpaid labor. If this be the result of immigration, the mobility of labor has its darker side; for it not only tends to level the wages up but also, it seems, to level wages down.

The contention that immigration tends to reduce wages, in its usual form, is based on an unqualified acceptance of the Subsistence Theory of wages; and the answers to the contention are generally little more than unqualified assertions of the Productivity

Theory. If wages are determined solely by the standard of comfort which the lowest class of competing labor has adopted, then the constantly renewed competition of foreign labor with a low standard of life must, as constant dripping wears away a stone, wear away the resistance which the working classes can oppose to the lowering of the standard. If the gates of the country were thrown open but once in a generation to the crowd of half-fed, half-clothed foreigners, there might be some chance of successfully resisting the tendency to lower the standard, by bringing all the influences of a higher civilization to bear on the incoming horde; but, when the occasion recurs every year, and each spring brings a new horde, and the effort of resistance has to be continuously kept up, the work will never be done. The higher standard might resist a few long attacks; but persistent attacks will wear out the energy and patience of the defenders, and reduce them to a sullen acquiescence in a lower standard of life. On the other hand, if we accept the easy optimism of the productivity theory, there is no wages problem to be faced. We may encourage immigration, as much as we please; for the newcomer will not, simply because he cannot, displace the old hand. The newcomer will be paid according to the work he is able to do. If his efficiency be as high as the standard efficiency of the trade, he will be paid the standard wage, no matter what his manner of life may be. Pauper labor is pauper labor because it is inefficient; and it will re-

main inefficient probably under the new industrial conditions; but it cannot by competition reduce the higher wages of more efficient labor. The answer to the contention that immigration may prejudicially affect the position of labor practically consists in the invention of a new style of economic harmonies by means of which we may prove that fears are groundless, for no possible evil can possibly exist.

A question of fact, however, cannot be disposed of in such an airy way. Even if investigation show that immigration does not really reduce wages, there is at least some ground for the widespread opinion that it has this tendency. In some industries, notably the textile industries of New England, a fall in wages has coincided with an influx of cheap foreign labor into the district and the industries; and the trade-unions have undoubtedly ground for their support of the contract-labor law because foreign labor has certainly been frequently imported to enable the employer to resist the demands of the union.

In the first place, immigration, although it has sadly deteriorated in quality in the last decades (and the competition of the lowest grades is always deadly, as Mr. Booth has pointed out) can hardly lower wages because of the actual increase in the number of competitors. The volume of immigration, great though it is, and composed three fourths of able-bodied men in the prime of life, bears only a small proportion to the actual body of labor—small at least, when we take into account that every industry

in a new country is subject to the law of increasing returns. Though the average annual immigration has increased enormously since 1860, the amount of capital invested in industry and the total produce of industry have increased much more rapidly. Industry has developed so quickly that it has been able to absorb all the immigration: in part the rapid development has been due to the great volume of immigration. As the West fills up, the power of absorption, on the part of the United States at least, will probably decrease; and then the problem set by immigration will become more actual. As things are, at times during the last decade it has seemed as if the United States had already absorbed to saturation point. The filling up of the West will have one important consequence. So long as there is good land available in the quantity desired the returns to agricultural labor will govern city wages, but, as the country fills up, the wages of the city, making allowance for the higher efficiency of city labor, will come to be standard for the country. Even now, the great majority of the immigrants do not go West, but remain at the port of entry, or herd in a few of the larger cities where chance has placed them and circumstances have developed a suitable *milieu* for them. In these cities their competition may serve to lower wages for their class of work, and indirectly to lower wages not only in the cities but all over the country, provided that the old supply of labor is maintained in that class.

The old supply, however, is not being maintained.

It is a well-established fact that the native workmen are being displaced but only by being forced up higher in the scale. In the same way, as the competition of women is displacing male workers, not by degrading them but by forcing them to seek employment in the higher occupations which the progress of science is constantly opening up, the competition of immigrant labor has, in some cases, forced American labor into new channels of activity. It might even be more correct to say that the opening of the new channels for American labor has created the vacuum which foreign immigration has flowed in to fill. It has been, on a vaster scale, a case of suction from within, rather than pressure from without. The great increase of immigration, in the early eighties, came to meet the demands of a period of railroad expansion. The immigrant labor performed a task which there was no labor in America to perform. The native American has, in his time, performed as great a task. He has cleared and settled the land; but he is by nature an individualist, and has never shown any disposition to labor in gangs. American labor was more profitably and more congenially employed; and when the demand occurred foreign labor was practically invited in. The great volume of immigration was due more to American necessities than to European poverty and oppression. That there have been individual and local hardships to native labor in America during the process cannot be denied; but these hardships are such as follow every economic change.

The whole contention for restriction of immigrants has been based on the tacit assumption that foreigners prefer to accept lower wages. Few men, when they argue, are so clear-sighted as the Toronto mechanic who declared, in his evidence before the Canadian Labor Commission, that "men never fight for lower wages, but try all they can to get higher wages." * Immigrants may be willing, during their short apprenticeship to the new conditions to accept less than the standard rate of wages; but they are "exceptions when they stick to that tendency right through." † It must be surprising to the supporters of the standard-of-comfort theory to see how very soon the newcomers rise to their privileges, and regard high wages as their necessary and just reward. Mr. Gould proves in his pamphlet *The Social Condition of Labor* that the foreigner is not long in rising to the native-wage standard. Foreign workmen of British or German origin, instead of underselling the native workmen, actually receive, on the whole, higher wages, partly because, in the displacing process which made room for the foreigner, only the less intelligent native workers had been left. An influx of foreign workmen may indicate a lower standard of efficiency, but is rarely the cause of the lowering of the standard. The influx of the French Canadians into the New England mills and factories occurred about the same time as a fall in wages of the native workers; but, though the popular con-

* *Canadian Labor Commission*, "Ontario Evidence," p. 2.

† *Ibid.*, p. 367.

clusion is not unnatural, it may be that the more intelligent of the textile workers had been displaced upwards, and that those who remained behind were worth only the lower wages they received. What is true of the workmen of British or German origin is true, though in a less marked degree, of even the degraded "Dagoes," Poles, and Bohemians. Even these immigrants show very little tendency to people down to their squalor. Their standard of life may not be very much higher than when they landed; but their savings bank account is. The great economic objection which can be taken to this class of immigrant is not that they reduce wages by their low standard, but that they save too much and spend too little.* The objection has especial force when, as in the case of the Italian and French-Canadian immigrants, the object of the saving is to acquire some small property in the native land and return thither, as soon as possible, to genteel affluence. It is not that they are not good workmen, or that they lower the wages of others through their squalid mode of life; but that they are not good citizens, nor ever can be, so long as they cherish the hope of leaving the country when their savings are large enough. When the immigrant comes with the intention of settling, his standard of life soon rises. The elevation is effected in a comparatively simple way. The family ceases to be the wage-earning unit; and with the continual presence of the mother in the home, a family life in the sense in which it

*Connecticut Bureau of Labor Statistics, *Report*, 1885, p. 60.

could not exist before begins. Except in those cases, such as the French Canadian and the Italian, where there is a deliberate intention to return as soon as possible to the native country to enjoy a cleared patrimony, the female members of the immigrant family seldom continue long to go out to work to eke out the earnings of the head of the house. No consequences in industrial life seem surer than the fact, that when a man can rely on the supplemental earnings of his wife and children his own wages are low. In many cases, the family must be taken as the wage-earning unit; and with this as the ground of comparison it does not appear that wages in Germany are so very much lower than wages in America. The difference is certainly not so great as the difference between the wages of the German and the wages of the American workman. When the German workman becomes an American immigrant the family earnings remain at nearly the same amount; but the amount is no longer made up by petty contributions from all the members of the family. The head of the family now contributes the whole amount, for, influenced by the example of the country, he has in great measure ceased to send his wife out to the workshop.

The contention that the immigration of hordes of men with low standards of living must eventually reduce wages is based on Ricardo's assumption that wages must fall, which, in its turn, is based on the Malthusian doctrine that men will necessarily people

down to their standard of comfort. On the contrary, however, the margin for saving which even the most degraded, and least desirable from a political point of view, possess, shows that the Malthusian assumption is not directly and unconditionally true. If we give up the Malthusian doctrine behind Ricardo's assumption, the contention that the low standard of living among the immigrants must lower wages for native labor loses much of its force. So long as the immigrants do not people down to their standard, the lowness of the standard may be a social evil of the first magnitude; but it does not reduce the wages, and consequently cannot reduce the standard of the native workman.

CHAPTER VII.

TRADE-UNIONS AS A WAGES FACTOR.

THE Austrian school, in their efforts to establish the theory of distribution that the value of labor is reflected back from the value of the consumption goods it is employed in making, have overlooked one important factor in the determination of wages. It is not only overlooked but, by critical implication, rejected by Dr. Smart in his recent *Studies in Economics*. This rejection is the more remarkable that it not only prevents them from recognizing one of the most potent facts in modern industrial life, and, thus, gives an air of unreality to their whole theory, but also is inconsistent with their own theory. The doctrine of a living wage they reject because it seems to give labor a predetermined value; yet on the grounds of their own theory, the standard of a living wage remains one of the most important determinants of wages.

On page 61, of the *Introduction to the Theory of Value*, by Dr. Smart, immediately following the enunciation of the law that price is determined some-

where between the subjective valuations of the last buyer and the last seller, who together are picturesquely called "the Marginal Pair," there stands this paragraph:

"But in the business world itself there is one great simplification of the law of the marginal pair. In modern industry producers do not make for themselves, but for the market, and the amount of their own products which they could use in their own consumption is insignificant. Consequently it may almost be said that such goods have no subjective value for the sellers, and we lose one whole side of our valuations . . . practically, then our law takes this form: Price is determined by the valuation of the Marginal Buyer." *

It may be true, as Dr. Smart contends, that the value of labor is simply a case of the general law of value, and therefore entirely dependent on utility, having, therefore, "no predetermined value"; but it does not follow therefrom that the wages problem is a simple or simplified case of the general law. Labor would get its "value entirely from what it produces,"† only under the condition that labor is a good of precisely the same character as all other production goods having "no subjective value for the sellers." The very existence of the modern labor question is proof enough that labor is not subject to this great simplification of the law of the Marginal Pair. The employer, the marginal buyer

* Smart, *Introduction to the Theory of Value*, p. 61.

† *Ibid.*, p. 79.

in this case, has not the only word to say in the determination of the price of labor. The seller claims vehemently that he must be consulted and the trade-union movement is an effort to give force to his claim. The valuation of the buyer, which is, in effect, the estimate which the employer makes of the efficiency of the labor, is only one of the determinants of wages. Labor, in spite of sentimental objections, is undoubtedly a commodity which is bought and sold. It serves no useful purpose to speak of selling the fruits of labor. Labor is a commodity subject to market conditions; but it is not therefore true that labor is a commodity resembling in all essential respects every other commodity in the market.

Labor differs from most, if not all, other commodities in retaining, even under modern industrial conditions, its subjective value to the seller. We cannot separate the labor and the laborer. It is labor that is bought and sold but, with the labor, goes the laborer. Therefore instead of a great simplification we have a great complication. The subjective valuation placed upon labor is not entirely derived from what it produces or from that which is obtained in exchange for its product. The direct utility to the laborer of that which he sells may not be very great. Modern agrarian conditions deny to the great majority of laborers the possibility of being able to consume what they produce. The peasant proprietor, or even the modern farmer, may produce all that he consumes and pro-

duce little besides what he does consume; but, to the great majority of laborers it is a physical impossibility for them to consume more than an infinitesimal fraction of what they produce. It does not, however, involve any unjustifiable stretch of language to say that, since labor and the laborer cannot be separated in fact, labor has a very definite subjective value put upon it, and with this estimate upon it, enters the market. Even if permission be not given to say that labor retains its subjective valuation, under modern industrial conditions, yet, without fear of contradiction, we may say that labor, involving disutility, demands a return of sufficiently great utility, at least to counterbalance the disutility incurred; which, if it be not precisely the same as a direct subjective estimate, is, in practice precisely equivalent to it.

The law of the value of labor is the law of general value without the great simplification; and the price of labor will lie somewhere between the subjective estimates of the buyer and the subjective estimates of the seller. The estimate of the buyer of labor, *i. e.*, the employer of labor, will form the upper limit: the estimate of the seller will form the lower limit. Between these limits, the value of labor, or the wages of the laborer, will be determined; and the result will depend on the comparative strength of the bargainers. That the seller is often at a great disadvantage because he must sell, while the buyer need not buy, does not disprove the statement. This hard fact is one of the forces which go to de-

wages; and in practice, in individual cases, wages may fall as well as rise. Practically, however, the long steady advance of both nominal and real wages has so accustomed us to consider only the more hopeful side of the wages question that we reject as merely theoretical any discussion of falling wages. Wages, according to the view set forth above, may rise in three ways, viz., by increasing the seller's valuation, by increasing the buyer's valuation, or by improving the position of the laborer as a bargainer. To put the same statement symbolically, we may say that wages may rise if 9x is raised to 10x, 12x remaining stationary; or 9x remaining stationary, if 12x increases to 13x; or again, the limits remaining the same, if the laborer's position is so much improved that, in the "higgling" of the market, he can obtain better terms, 11x, say, instead of 10x. We may treat each of these methods separately, though, as a matter of fact, they react on each other and seem to change simultaneously. We can hardly improve the position of the laborer as a bargainer without at the same time, or previously, raising his estimate of what his work is worth to him: nor can we raise the lower limit without strengthening the laborer in his bargaining. The upper limit is less subject to reciprocal influences. It is the employer's estimate, and is less likely to change than the lower limit. Wages can hardly rise above the employer's estimate based on the efficiency of the labor. What he pays is, naturally, no perfect guide to what he might pay if necessary, but the upper limit, though

necessarily to the worker an unknown quantity, is none the less a very determinate quantity. There is no necessity upon the employer to allow this limit to be passed as there may be on the employee to accept less than the lower estimate. Yet there is a tendency for the limits to move together, to advance together or to fall back together, like the two ends of a piston rod. They keep their distance because an increased subjective estimate by the laborer of the worth of his labor makes him a more efficient workman; and whether he is or is not paid according to his efficiency it is economically possible for him to demand the higher wage without bringing industry to a standstill.

The laborer can only by increasing his efficiency raise the upper limit of wages; and practically the working classes as a whole have been content to try to raise wages by raising the lower limit below which it is difficult for wages to fall, or by improving their position as bargainers. These methods fortunately tend to make the laborer more efficient and thus indirectly raise the upper limit of wages; but they do so indirectly. Every social and moral force, every law and custom, every measure of education and mental improvement which tends to increase the laborer's dignity and self-respect, every change in his environment and in the public opinion regarding his mode of life and work, every improvement in the sanitary conditions of workshop or dwelling-place which tends to make a more human life a possibility will act in the direction of raising his estimate of his

work, because raising his estimate of himself. To increase the laborer's self-respect is one of the surest ways of raising his wages; and this, apart from the effect which increased self-respect will have on efficiency. On the other hand, an increased efficiency of labor tends to raise the upper limit. Increased technical skill and improved general education render it possible to employ new and improved machinery and to adopt processes of manufacture which a lower level of general education had made it uneconomical to employ. From the resulting increased product the employer is able, though not necessarily disposed, to hand over a larger share to labor; and can hand over a larger share without economic danger to industry. There does not seem very much ground for the position taken by many modern writers on wages, that remuneration is strictly proportioned to efficiency if, at any rate, this be taken to mean that wages and efficiency are almost convertible terms. That the employer can pay higher wages is no economic reason why he should pay them; and there is often very little reason to believe that he does pay them. It is true that both wages and efficiency have increased during the last half century but we cannot take the one as the measure of the other. Indeed, when we consider that the amount of capital employed has increased much faster than the amount of the product, and that wages have increased in a higher ratio than either, it is evident that efficiency and wages do not necessarily correspond. What we can say

is, that out of the increased product the employer may and can pay a larger absolute, if not a larger relative share to labor.

The most hopeful feature of the industrial situation is that these two methods of increasing wages react on each other. Increased wages, and still more increased leisure, not only help to promote a higher degree of self-respect and of human dignity but also to raise the standard of efficiency. It would be impossible to measure, even had we the aid of definite statistics, how far a better man is a better workman; but it is none the less true, though we cannot measure, that whatever tends to raise the workers self-respect, whatever increases his frugality and sobriety, whatever quickens his intelligence and enlightens his moral sense, has a direct and immediate effect in raising his efficiency. To raise the seller's valuation of what he has to sell is one very sure, though indirect, way of raising the buyer's estimate of what he wishes to buy; and any increase of wages obtained as a result of the moral elevation of the workingman, is doubly secured to him against reversal.

Trade-unionism has as yet done little to raise the standard of efficiency directly; although it is possible by means of encouragement to technical education that much might be effected. So far the effect of many trade-union regulations and of the notion, which Mr. Schloss calls the theory of the Lump of Work, that inspires those regulations has rather been to discourage any tendency towards increased effi-

ciency. While the idea persists that the man who does his best is a traitor to the cause of labor, trade-unions will do little directly to make it possible to raise the upper limit of wages. Indirectly, however, trade-unionism has done much to raise the standard of work. Not only has it insisted that each member of the union shall earn the standard wage, but, as Prof. Marshall points out,* by quickening the intelligence, by elevating the dignity of labor and promoting, in Parliament and elsewhere, measures which increase the self-respect of the laborer, it has undoubtedly contributed to an improvement of the quality of the work done. It is, however, only in this indirect way, that trade-unionism has been able to raise the upper limit of wages. By its influence, the lower limit may rise from 9x to (say) 10x, and, indirectly, the upper limit way have a tendency to rise to 13x; but the influence is neither so great nor so unique as to justify the claims of enthusiastic unionists or a separate treatment of the trade-unions as a factor in the labor market. Its influence in raising the self-respect of the labor is not much more important than the influence of the temperance movement, or the extension of the franchise; and there can be no doubt that a higher standard of popular education does much more to increase industrial efficiency than all the multiplicity of trade-unions and working-class associations.

It is in connection with the third method of raising wages that trade-unionism chiefly merits treat-

* *Economics of Industry*, bk. vi., cxiii.

ment as a powerful factor in the Wages Problem. The influence of the unions has been generally directed rather to making the best use of what at present exists than to altering the *status quo*. Their influence is most readily discernible in the endeavor to improve the laborer's position as a bargainer. Except in the case of the subjective disutilities of labor which arise from the material conditions in which the laborer works, trade-unionism has rarely attempted the more difficult task of raising the limits of wages. The result is too remote and can hardly be foreseen. The steps to be taken to make 9x, 10x, or to raise 12x to 13x, do not readily commend themselves to the average member of the union as something for which he ought to make sacrifices. The unions, as we shall see, must appeal to the fighting instinct in their members to maintain discipline; and the desirability of legitimately raising the limits within which wages are determined has never been a matter of contention. The unions have confined themselves to the more obvious task of striving to secure that as large a portion of the difference between the two limits as possible should come to the wage earner. The distribution of this difference depended not on the strength of the limits to resist attack, but on strength of the bargainer; and the object of trade-union policy has been to strengthen the laborer as a bargainer in the labor market.

The laborer, bargaining in his own strength, is subject to serious disabilities. Usually he has no

reserve fund to enable him to "stand out, as all other sellers do, for his price." *

"A landlord," says Adam Smith, "a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stock which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarcely any a year without employment. In the long run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate." †

It is the immediacy of the necessity which makes all the difference in the bargaining. The laborer must sell to-day: the employer need not buy till to-morrow. To the master it is only a question of profits: to the laborer it is a question of life. Trade-unions, with their out-of-work funds, enable the laborer to stand out for his price, as other sellers do. They practically endow the laborer with a reserve; and thus enable him to bargain with the employer on more equal terms. This is one great disability they remove, in part at least; but it is not the greatest to which the laborer is subject. The individual laborer is not simply set over against the employer. He must sue for work as one of a crowd. When two men run after one boss, said Cobden, wages fall; and the first clause is more often realized than the second of his much quoted

* Thornton, *On Labor*, bk. ii., c. i.

† *Wealth of Nations*, p. 28.

dictum. The laborer may be endowed with a reserve, and may stand out for his price, as other sellers do; but the competition for employment may be so great that his place is filled while he stands out. No individual workman is indispensable. "In the long run," to repeat the sentence from Adam Smith, "the workman may be as necessary to his master, as his master is to him; but the necessity is not so immediate." Labor is indeed indispensable, but no individual is. *Il n'y a pas d'homme nécessaire*, Matthew Arnold (as he tells us), was fond of quoting to the most complacent people; and the lower we go in the ranks of industry, the truer the doctrine is. This is the reason why strikes among unskilled laborers are so rarely successful. Unskilled labor may be necessary and indispensable; but no unskilled laborer ever is. His place can be too easily filled and his services as readily rendered by another. The object of trade-union policy, through all the maze of conflicting and obscure regulations has been to give to each individual worker something of the indispensability of labor as a whole. Had the unions power as they have ambition they might rule the industrial world. That their policy has not effected more than it has is due partly to the small proportion of the workers included within their numbers, and partly to certain natural limitations to their power. They could not succeed in engrossing the whole of the product of industry because the master is, in present industrial conditions, as necessary to the laborer as labor is indispensable to the

master. A large measure of success in their policy would probably result in a diminution of the demand for labor owing to the conversion of circulating into fixed capital and the adoption of labor-saving machinery. There is small risk of their policy becoming dangerously successful. The natural limitations to the policy quickly check any excess of zeal.

The province of trade-union action is the strengthening of the position of the laborer as a bargainer, the enabling him, in particular, to resist that pressure of circumstances of which employers might be ready to take advantage. In the useful phrase given us by Mr. Sidney Webb, the essence of trade-unionism is "collective bargaining." More or less unconsciously, all the regulations of the union have this in view; and most of the customs and prejudices of the trade-union world are inspired by this idea. The solidarity of labor for which they strive is only a means to collective bargaining; and, with this in view, they strenuously oppose many reforms which would probably secure great, though temporary advantages for at least a large number of workers. They oppose any scheme, however enticing or philanthropic, which would have as one of its results the separation of the individual workman from his fellow workers. They will not allow grading of workers according to ability, although the demonstrated result is to make it increasingly difficult for older men to obtain any work when they no longer have the physical strength to earn the trade-union

minimum.* They object, with the success of the avowed policy of the South Metropolitan Gas Company before their eyes, to any, and every, scheme of profit sharing: such schemes, however profitable they may prove to the individual workmen, having, as their result, if not as their motive, the detaching of a section of workers from their fellows. They are, with some exceptions, opposed to piece work, because it offers a standing temptation to the individual to set the pace of work too fast for his weaker or less skilled fellow workers. As a body, they will not hear of measures which allow contracting out; because of the inevitable effect on the solidarity of labor. Their aim is to compel the employers to deal with their men collectively. The history of the growth of their power is simply the history of the growing public and legal recognition of their right to represent the collective interests of their members. From first to last, this object has been kept in view; and the object is as important in the present day as ever it was. Divide and govern has ever been the policy of the master. To treat with each individual as an individual and to ignore the trade-union which claimed to represent him, has always been the practice; now it is also the avowed policy. Masters' associations have been formed to fight the trade-

* The Halifax (Nova Scotia) Shipwrights and Caulkers Association allow men over sixty to work in the trade for what they please. If an individual, however, chooses to remain in the society after he has reached sixty years he is subject to the usual penalty if he accepts less than the Union pay, $2.50 a day. Royal Commission (Canada) on the Relations of Capital and Labor, Nova Scotia Evidence, p. 108.

unions with their own weapons. The employers maintain, exclusively for their own purposes, as they avow, Associations of Free Laborers, so called, although the government and management are carried on by, and for the interest of, persons who are not members. These associations are designed to permit the masters to treat with all workmen as individuals, in contempt of the unions.

The trade-unions have not, so far, been very successful in carrying out their policy. After nearly three quarters of a century of agitation, the English unions secured a modified recognition of their position. The right to combine was admitted, and legal protection against their own officers was accorded; but little else has been gained. Public opinion, occasionally and spasmodically, allows the right of the unions to treat for the men. Here and there, a more enlightened employer has recognized that it is better to deal with a strong union than with individual workmen; but as yet the unions have not won any legal *locus standi* as the representatives of their members. It is still held in law that there is a separate contract between the employer and each of his employees. The union may order a strike; but before the strike begins each individual employee must give separate notice of the termination of his individual contract. The union is not competent to give legal notice for its members; and a collective strike may legally take place only after individual notice has been given. To obtain this legal position, as the representatives of the members, the trade-union

leaders are still striving; and until this recognition is obtained, collective bargaining will not become, even between the limits, a complete determinant of wages.

The reason why this legal recognition has not been obtained is that the trade-unionists do not, in many trades, form a large proportion of the workers.* There is a natural hesitation in committing to a fractional proportion the regulation of the whole of industry. It is not, however, necessary for the practical success of the policy of collective bargaining that the whole of labor should be included within the unions; and hitherto the union policy has been more successful than the membership seems to have warranted. This is possibly due in part to the fact that the membership has been made up from the best workmen in the trades, who might, in any case, have obtained the rise of wages which they disinterestedly attribute to the union policy; and, partly, also, to the fact that the full strength of trades-unionism is not, at most times, adequately represented by numbers. The membership varies a great deal according to the necessities of the industrial world. In times of peace and prosperity, the membership will hardly maintain itself at fighting strength. In times of threatening it receives large accessions. There seems to be a kind of nucleus of the labor army continually under arms while the

* According to Mr. Frederick Wicks (*Nineteenth Century*, 1891) about 11 per cent. of the working males over twenty in the United Kingdom are enrolled in the unions.

large part of its fighting strength is in reserve and does not remain with the colors. This reserve is not so effective as the stalwarts who remain all the time under arms but it has its effect in maintaining a large degree of solidarity and in giving greater authority to the demands made by the standing army. The knowledge that danger brings out the reserve checks aggression which apparent numerical weakness invites.

At the same time, this habit of irregular service is almost necessarily fatal to discipline, and shuts out the hope of complete success. Effective collective bargaining depends even more on discipline and cohesion than on numbers. The unions are, therefore, faced with a twofold difficulty, and, consequently, a twofold task. They cannot hope to obtain recognition from employers as the representatives of the employees, while they fail to retain their hold on their own members. The very possibility that an agreement with the union may be repudiated by the workers outside the councils of the union is sufficient to prevent any important agreements from ever being made. Until the unions secure the adhesion of their own lukewarm sympathizers and the implicit acceptance of the collective decisions by every member, whether consulted or not, they will gain only a grudging, or, at most, a sentimental recognition from a few employers. Their main task, as it is the chief obstacle in the way of success, is to make their internal discipline more perfect and to strengthen their hold on their own

members. The difficulty is greater in peace than in war. While a strike is impending and during its continuance a union has little difficulty in controlling its own members. During peace it is harder to convince unenlightened members that the benefits of concerted action and collective bargaining outweigh the sacrifices which must be made to obtain these benefits. Caprice and lukewarmness alike tend to reduce the membership when nothing calls forth the spirit of class antagonism. Consequently, it is not merely as a remedy against the masters, but also as a remedy against the indifference of their own members and the lack of habits of discipline, that newly formed unions find themselves compelled to carry on a militant policy and engage in strikes. In older unions, among whose members the habit of obedience has been formed, there is not the same necessity for a perpetually militant policy. Their proved strength has not only won them the respect of the employers but has also secured cohesion in their own ranks.

The difficulty of securing this cohesion arises from the fact that the only power which a union can exercise over its members is a moral power. It depends on their willingness to make present sacrifices for future benefits. Even where habit has reinforced the original moral motive the control of the members during times of peace is a serious question. Many of their rules and regulations are more honored in the breach than in the observance; and most unions have been compelled

to reinforce their authority by more mechanical methods than an appeal to principle or future self-interest. With the exception of the militant new unions, nearly every association exercises the function of a benefit society, and by means of deferred payment endeavors to retain control of its members. The means which they object to the employer using in order to attach the men to his service they themselves employ in order to maintain the solidarity of labor. These benefit funds were originally established purely as benefit funds, but now they are made to serve a double purpose. It may seem strange that members of a voluntary association founded to secure the interests of its own members should be so difficult to manage; and some have not hesitated to write strongly of trade-union tyranny. It is asserted that coercion of some sort must be used to induce those members to join who are so hard to retain and so difficult to manage. Surely, however, the divergence between collective and individual interests is no uncommon political phenomenon. Every day collective decisions are being made by men who know that personally they will not abide by these decisions. Everyone who has lived in a prohibition town knows men, saloon keepers even, who, having voted for "no license," not only wink at the violation of the law but often violate it themselves. It is a weakness by no means confined to the working classes that their immediate interests weigh heavier with them than their collective decisions. How easy a matter is it to induce

the shopkeepers in one district to stick by an early-closing agreement ? Has not the ring or the corner developed under pressure of the same difficulty into the combine and the trust ? Many an ardent advocate of high protection has, without much hesitation, done a little smuggling on his own account; with less justification, too, for his inconsistency, than the trade-unionist has for his, who, after voting for a general strike goes back to work while his fellows remain out, or, after a long experience of being out of work, undersells his fellow-workers, although he has previously acquiesced, at least, in the principle of the trade-union minimum wage. It is not trade-union tyranny which lays down these regulations but human nature which necessitates them. For the laborer must live by his own labor; and when there are added the necessities of his wife and children, it is small wonder that he is sometimes false to his unionist principles. Without injustice to the sex, when we remember how much more to a woman is the economy of her own household than the collective interests of labor can ever be, we may say that the women are a most potent cause why trade-union policy is not more successful. When, in a long spell of forced idleness on the part of the breadwinner, article after article of furniture disappears from the home, to buy the children bread, it is natural that the wife should urge her husband to sacrifice what is to her only a half intelligible principle. Women live more in the concrete than men, and have less power of realizing an abstract principle. Conse-

quently, the influence of the women must be counted as, on the whole, one of the influences hostile to the success of trade-unionism. Their influence reinforces the individual interests which it is the policy of the union to subordinate. However much sympathy leaders of the union may have with the individual's position they must set their faces against any pursuit of self-interest which might weaken his allegiance to union principles. It is because trade-unionists believe that the interests of the individual worker are best guarded and maintained by concerted action that the policy of collective bargaining has been adopted; and collective bargaining is not tyranny but democratic principle.

The difficulty of maintaining cohesion and discipline is the great natural limitation on the action of trades-unions in raising wages. It is a permanent limitation because it arises from the inherent imperfections of human nature and will remain until man is perfectly socialized in his motives as well as in his outward actions. It arises not so much from the small proportion of workers included within the unions as from the conflict of individual and collective interests; a conflict which, in the nature of things, is probably inevitable. The difficulty may, it is true, by means of out-of-work funds and strike benefits, be met and partially overcome; but, while the necessity for trade-unions continues, this difficulty will confront them in carrying out their policy.

The proportion of the actual workers included within the union becomes of more pressing import-

ance when the wisdom of any particular application of the principle is under consideration. The utmost that the fullest application of the principle could achieve for the laborer is that the actual value of labor should be determined as nearly as possible to 12x, the upper limit. Trade-union action would be suicidal if it demanded more of the product in wages than the industry can economically afford. It may try to secure that the whole of the debatable ground is secured for labor; but it is practical wisdom to recognize that the whole of this ground can never be secured at a stroke. *Festina lente* must be the motto of the union leader unless success is to be immediately reversed; and advance can be made only by stages.

The weakness of the position of the employer as a bargainer in the labor market is that delay means loss of profits. He can, it is true, support himself out of the stock which he has already acquired; but he is never willing to do so if he can avoid it. The greater the amount of capital involved in his business, the greater the loss arising from delay in process of production. The employer may therefore be willing to grant a demand which is only trifling in itself to avoid a greater loss by delay. If the demand is put forward in such a way that it alarms him with the prospect of further demands to be made, he may decide to resist before the opposing forces are flushed with success. So it is the cardinal maxim of wise trade-union policy never to make extravagant demands, or to ask more than the em-

ployer will grant rather than face the loss from refusing. If he does refuse, there is certain loss to him—not, perhaps, the great loss of having all his capital made idle, but certainly the loss which arises from the necessity of making a change in his staff of workers and in getting them trained to his methods. "Never to press for a larger gain than is covered by the difficulty of replacing the body of present employees by outside labor," * is the maxim of a wise policy. It is a wise policy not only because it is likely to be successful, but also because it does not expose the laborer to any unnecessary risks. The laborer must live by his labor; and if by grasping at a greater gain he sacrifices the employment he has, his condition is both hard and ridiculous. What demand the cost of replacing the present staff by outside labor may admit, depends on the supply of labor, the strength of the union, and the nature of the work. If a large proportion of the workers is included within the union they may press for a larger gain because the difficulty of replacing the body of the present workers may be so great that the employer must either submit to the demand or, refusing, submit to have his works closed down. In the skilled trades, where a considerable proportion of the workers is included within the union, a demand, within the proper limits, will generally be granted unless it happens, as it may very probably, that the strength of the workers has already secured for them all the difference between the two esti-

* Hobson, *Problems of Poverty*, p. 116.

mates. In the case of unskilled workers, demands must be very much more moderate, because the cost of replacing is so much less.

The advocates of trade-unions claim that the greater part of the rise of wages during the last half century has been due to their influence. Certainly the rise of wages and the growth and progress of trade-unionism have proceeded *pari passu*. The examination we have made of the influence of collective bargaining shows that the claim must be modified. Had the standard of efficiency not risen steadily, there would have been no steady rise of wages, unless, indeed, we are to suppose that the difference between the two limits, at the beginning of the period, was enormous: which we have no ground for supposing. Indirectly, as we saw, trade-unionism has promoted efficiency and, indirectly, has thus raised the upper limit of wages. Directly, however, the method of collective bargaining can secure only that the value of labor is determined nearer the upper limit than the lower; and, had there been no rise in the standard of efficiency, there would, very quickly, have been a limit to the rise of wages.

When we regard the policy of trade-unionism regarding wages as being directed towards the collective interests of the workers the balance sheet of a strike becomes of secondary importance. To the individual striker, the result may be a great loss: to the whole body of workers it may be a great gain. We can no more estimate the wisdom of a strike

from the point of view of the actural loss or gain to the strikers, than we can estimate the results of a battle or a campaign by the number of lives lost.* Even a virtual defeat when the strikers, or so many of them as can find room, go back to work, with their demands ungranted, may result in a great gain to the body of workers as a whole—to the body of workers in that trade directly and in a greater measure, but also, though indirectly, to the workers in all trades; and an advance which was refused, when thus violently demanded, may be conceded by degrees when more cautiously requested—and not to the strikers only — because the employers have learned to respect the fighting power of their employees.

* Marshall: *Economics of Industry*, p. 391; see also Nicholson's *Strikes and Social Problems.*

CHAPTER VIII.

THE METHODS OF INDUSTRIAL REMUNERATION AS A WAGES FACTOR.

MR. SCHLOSS, in his *Methods of Industrial Remuneration*, has confined his investigation to the method as distinguished from the amount of the remuneration; but the method is not without bearing on the more essential question of the amount. The system adopted may be of such a nature as materially to affect the position of the wage earner in the wages bargaining: his freedom may be curtailed, his general character weakened, his efficiency reduced, by one method of remuneration; while by another his mobility and his independence may be increased, the stronger elements in his character allowed to develop, and the utility of the reward, for which he is induced to serve, augmented.

The form of the wages contract which is made at the conclusion of the bargaining has, therefore, sufficient importance to justify separate treatment; even although the methods of remuneration are not to be regarded as an independent factor in the pro-

cess but simply as a general condition affecting the factors which have already at greater or less length been discussed. This chapter is, therefore, an examination of the way in which the manner of payment affects the mobility of the laborer, the possibility of combination, the efficiency, the disutility, etc., of labor; and may be regarded as a supplement of or appendix to the previous chapters.

The time and the manner and the kind of remuneration which the laborer receives determine in part the laborer's estimate of what the labor he renders is worth and the employer's estimate of what the laborer's work is worth in the market; and affect strongly the comparative strength of the bargainers in the process of bargaining.

The laborer's estimate of what his labor is worth —the lower limit of wages—is partly conditioned by the methods of remuneration which may either increase or diminish the disutility of labor, or increase or diminish the utility of the reward. The former is not directly or greatly affected. Indirectly, by weakening the laborer's power of resistance, certain forms of payment, notably truck payments, lead to evil conditions which materially increase the disutilities; and generally speaking those forms of wages-contract which leave some element indefinite, intensify both the positive and negative disutilities.

Profit sharing, as we have seen, has the effect of increasing the labor expended without proportionally increasing the reward; and piece work, by forcing the pace and paying all according to the

standard of the most efficient, has the same effect.* The objections which the trades-unions raise against the system of piece work are not based on any envious grudge of a higher reward for higher efficiency, but on the fear that the superior ability of a few may be set as the standard for all. Time wages have nearly always a quantitative reference and in the ethical phrase are sanctioned by the dismissal of all who fail to reach the standard. This standard tends to be the efficiency of the best workers on piece work; and the consequence of enforcing this standard would be that for a given reward a greater expenditure of energy is required.

The moral disutilities of labor are generally increased by those forms of wage payment where the laborer is not left in free and complete command of his reward. These intensify the irksomeness of labor and the sense of dependence; and, consequently, mean a larger output of energy and a greater general disutility.

The influence of the methods of remuneration on the other element which goes to make the laborer's estimate—the utility of the reward—is more direct. Wages are earned in order to be consumed and the method of payment obviously affects the command the laborer has over consumption goods. The maxi-

* Piece work has undoubtedly the effect of increasing the output of the worker but it has had no influence in raising the average wage of the piece workers above that of the time workers. The average annual time wages in the United States is $498—the average annual piece wage is $500. Wright, *Industrial Evolution of United States*, p. 197.

mum utility is obtained by the laborer when his wages are paid, at short intervals, and in the legal tender of the country. Whether he obtains an ethical maximum depends entirely upon himself and his discretion in consumption. He certainly obtains the fullest possible opportunity. The minimum of utility is in general obtained when the wages are paid in goods, or in orders at the store only, or at long and irregular intervals. There are two cases to discuss (1) when wages are paid in cash but at long intervals or irregularly; and (2) when they are paid in kind or in goods, whether by the week, the month, or the season.

In the industrial centres wages are now generally paid by the week; but in many districts where money is scarce, or labor unorganized, and in certain employments where the natural conditions do not favor weekly payments—*e. g.*, railroads—wages are still paid by the fortnight or the month. There can hardly be any question that weekly payments are a benefit to the laborer. On this score his own demand may be taken as final; and there is practical unanimity among the working classes in regarding weekly payments as an advantage. They are enabled thus to avoid the increased prices which are charged when credit is given; and although, in a few instances, it may be that the laborer, paying cash, is unable to obtain a discount from credit prices, and may thus be made to make up to the storekeeper for the bad debts of his credit customers, such instances are rare and occur chiefly in smaller towns and vil-

lages. Evidence was taken by the Canadian Labor Commission on this subject and the opinion of working-class witnesses was that with weekly cash payments they could spend their money twenty to twenty-five per cent. better than if, in consequence of monthly payments, they were compelled to buy on credit. On the other hand, the employers who still maintained the practice of monthly payments averred that weekly payments led to extravagance and dissipation while monthly payments encouraged saving and enabled the worker more easily to meet any large liability—*e. g.*, house rent—he might be required to pay. To the best workmen weekly payments might be no great advantage, and to the dissipated they would prove a great evil; but to the average workmen they would be highly advantageous.*

* *Ontarto Evid.*, p. 875, Can. Labor Com. "The employees would rather have their pay weekly, because it would make them financially more independent. We find that in a great many instances (witness was District Master of the Knights of Labor) workmen have to run monthly accounts, and that puts them entirely at the mercy of the corner grocers. You feel under obligation to the man; you have to take what he has got and you cannot go anywhere else; you are obliged to stay there."

Nova Scotia Evidence, p. 364. "The men could live for from five to eight dollars a month less for cash, if they had it, than they can upon credit. . . . When you have cash the merchant will take what you give him, whereas, if you get goods on credit they go into his books at his own figures."

Ibid., p. 441. "It would give the men a much better chance to deal for cash, and would give them a chance to buy many things cheaper than they can do by the present system of monthly payments. If a man comes in with country produce and you are paid weekly or

Not infrequently the payment of wages is not made for some weeks after the time sheet has been made up and the workmen get advances at high rates from outsiders on this security. Sometimes the employer pays wages in due-bills payable at some future date; and the wage earner may either wait or get them discounted. The rates of discount on such due-bills are generally high not only because the security may not be good, but also because the necessities of the worker are immediate. One witness testified before the Canadian Labor Commission * that he had been paid with *bons* or due-bills

fortnightly you have cash. If you have not, he goes to the store and sells what he has, and you have to buy the same article on credit and pay more for it."

Ibid., p. 405. "In reference to the subject of weekly payments . . . the only difference is that the men go drunk once a week instead of once a fortnight."

* *Quebec Evidence*, p. 783.—We were obliged to take '*bons*,' notes to be paid; without these we might have waited a long while and perhaps lost our money.

It was an order, a note to be changed, a promissory note: "I promise to pay in thirty days the sum of ."

Q. What did you do with that note? A. I got it changed.

Q. Did it cost you anything? A. One dollar and the note was for twenty.

Q. Did you change it in a bank or with somebody in connection with your master? A. With a broker.

Q. Did your master send you there or did you go of your own accord? A. My master told me to go there.

Q. Then the master gave you a note of twenty dollars to pay your wages, and sent you to the broker he pointed out who paid you the note and retained the dollar? A. Yes.

The only industry in which this practice still survives to any extent is lumbering where a considerable interval of time must elapse between

which were discounted at sixty per cent. Several Ontario witnesses stated that they had been paid in due bills which were discounted by local shopkeepers at fifteen, twenty-five, and even fifty per cent.; although some merchants in Ottawa were said to receive them at face value.*

The manner of payment here not only restricts the command which the laborer would otherwise have over the necessaries of life but actually reduces the nominal wages paid.

Payment of wages in kind may be either produce wages or truck wages. For the former there is much to be said as a method of securing the real advantages of profit sharing. Mr. Garnier advocates it as a method of improving the condition of the agricultural laborer. The great objection to payments in kind is that the reward is not definite and, therefore, leaves the laborer continuously at the discretion of his employer. The goods received in payment may vary in quantity, quality, and value; but in the case of produce payments, though

the performance of the work and the marketing of the product. Should the "cut" of a small operator, or subcontractor, be held up in the smaller streams and tributaries he is generally paid by means of a due-bill payable next season when the lumber arrives at the market or when his cut gets out into the main stream; and presumably he often pays his hands for their winter's work in the same fashion. *Quebec Evidence*, p. 1190.

* *Ontario Evidence*, p. 1188. These due-bills are not scrip regularly issued but notes of hand which it is said are not always redeemed when they fall due. *Ontario Bureau of Statistics Report*, 1888, iv., p. 8. This practice has with the truck system practically disappeared.

the value is not definite, the quantity always is, and the quality is ascertainable. The variations in value, moreover, are determined, not by the will of the employer, but by the forces of the market. "I would at any rate suggest," he says, "that there should be less cash and more flour in the wages of each Saturday night"; and he quotes with approval from the *Journal* R. A. S. E., the following passage:

"One very obvious benefit arising to the hind from this mode of paying in kind, besides that of having a store of wholesome food always at command, which has not been taxed with the profits of intermediate agents, is the absence of all temptation which the receipt of weekly wages, and the necessity of resorting to a town or village to buy provisions, held out of spending in the ale-house some part of the money which ought to provide for the wants of the family." . . .*

In so far as produce wages are definite, the system is advantageous to all concerned, but especially so to the wage earner, owing to the great saving on the profits of middlemen;† but it is doubtful whether

* Garnier:—*Annals of the British Peasantry*, p. 411. As he points out (p. 410) the good in payments in kind was abolished by the English Act of 1887 while the bad was practically retained. Intoxicating liquors may not legally be given in payment of wages; but the employer may still do so by calling it a gift.

† The system of *metayer* farming which is practiced largely in some of the older of the United States may be regarded either as a system of produce rents or of produce wages. The disinclination of the descendants of the original settlers to engage in farm work and their natural exodus to the cities and the professions have rendered them

these advantages offset the disadvantages which arise in a period when wages are falling. Wages which are paid, in whole or in part, in goods, are subject to unrecognized fluctuations with the level of prices. Thus the wages of lumbermen in Canada, and domestic servants everywhere, have either fallen, or not risen so far as at first appears, because board is included in their pay and the prices of most of the articles they consume have fallen, although the increased variety and the improvement in the quality of the board provided may restore the balance.

The truck system is the outstanding form of the payment of wages in kind and is still prevalent in many districts. It has disappeared, indeed, at all the industrial centres and the practice is confined to backward districts, where banking facilities are poor,

unwilling or unable to continue cultivating the old homestead. Labor is too dear to allow the farm to be cultivated entirely by hired labor; and it is difficult to dispose of the farm, apart from sentimental reasons, on advantageous terms, sometimes on any terms. At the same time there has been an immigration of European farmers without capital. The system of farming by 'halves' or 'thirds' which has been developed is as natural an outcome of these circumstances as the stock and farm leases of the 15th Century were of the conditions produced by the Black death. The owner supplies the farm, the stock, and sometimes even the implements, and the farmer pays one half, or two thirds, of the produce to the owner, according to the amount of capital supplied. In the Maritime Provinces of Canada where the same agricultural and social conditions prevail the *metayer* system has not been developed owing to the absence of a foreign element in the population accustomed to intensive farming. In New Brunswick, however, the hay harvest is often cut and private gardens are occasionally cultivated on this system. In this case we have a system of produce wages rather than of produce rents.

and labor unorganized and ignorant, and to those industries which, depending on the season, involve irregular employment and proportionally large capital. The effect of this method of industrial remuneration was characterized in the report of the Canadian Labor Commission as always amounting to a sweated wage; and in its worst form, as it has existed in many places, it has resulted, as was epigrammatically said of it in Newfoundland, in the laborer being not paid in "part goods, part cash," but in "part goods, part trash." Frequently the laborer, where this system is in force, has received no part of his wages in cash. By means of deferred payments and irregular employment, the worker gets involved in debt at the company store, and then he has practically ceased to be his own master. Those who are once in the toils of the system are seldom able to work their way out again; and the more deeply they are involved, the more subject are they to petty tyrannies at the hands of the subordinate officials of their employers. The salesmen in these stores frequently carry side lines of goods which they practically force * upon unwilling but helpless customers, because they control

* "But there is another evil which we learn in connection with this system. At some company stores in this county the managers, or clerks, carry side lines of goods, usually jewelry, which they sell to men who have employment around the works; and in one instance, it has been told us that a workman who had purchased a $15 filled-case watch for the moderate sum of $35 . . . went and asked for an order to get $5 in cash at the office of the mine. 'Yes,' was the reply, 'if you give me $4 on that watch you bought from me last month.'"—*The Island Reporter* (Cape Breton), Nov. 11, 1896.

the avenues of employment. The object of those who practise the system in its most objectionable form is to control the expenditure of their laborers for the sake of the profits, legitimate or not, of the retail business; and the laborer is seldom allowed to carry away any part of his earnings in cash. In many cases, the only way in which ready money can be obtained is by reselling the goods obtained at the stores; and there is a profitable business, mainly in the hands of the saloon-keepers, of buying from the laborers the articles they have obtained at the stores.* This is not infrequently the only method in which the goods required can be obtained, for when the goods asked for are not in stock, the intending buyer has to do without, having neither the cash nor the courage to seek elsewhere.†

The problem how far the payment of wages in goods obtained at these stores curtails the utility of

* A valued correspondent, Mr. C. Ochiltree McDonald, of Port Morien, Cape Breton, who has given me much information regarding the working of the truck system in Cape Breton, informs me that there were lately auctioned off by a drink-seller at Glace Bay, C. B., 1038 tobacco pipes, which had been taken from the miners in exchange for drinks—the auction being the method of realizing cash on the transaction. Frequently, in the same district, there are auctions—sometimes several in the course of a week—of goods such as clothing and groceries, which have been obtained at the stores and exchanged for drink. The profits of this business are so large that many saloon-keepers have been attracted to the district.

† *Canadian Labor Com.*, *New Brunswick Evidence*, p. 407. It is by no means always the case that the company stores are inferior to outside stores, and many of them are said to carry as large a line of goods, and at as reasonable prices. The Hon. Robt. Drummond, for eighteen years head of the miners' organization in Nova Scotia, in-

the reward depends, largely, though not altogether, on the scale of prices. There is a certain exaltation in the sense of freedom and independence which comes from the consciousness of possessing money in the pocket which that man does not experience the payment of whose wages is simply a matter of bookkeeping, no matter how reasonable the prices in these company stores may be. *A priori* it might almost be argued that the existence of a practical monopoly will sooner or later lead to a higher scale of prices; and the facts seem to bear out this contention. I have accumulated a good deal of evidence on this point, but the following table is more comprehensive than the statements of any of my correspondents, and is, moreover, taken from the public

forms me that the renewed outcry against the truck system in that province during the last two years has come from the storekeepers rather than from the miners. The coal fields of Nova Scotia are now controlled by the Dominion Coal Co.; and under new management the old objectionable features of the system have disappeared, the company stores now keeping a larger variety and selling superior goods at lower prices than the retail shopkeepers can afford to do; and the result has been an agitation on the part of the storekeepers against the system. Mr. Drummond's contention is in part borne out by the fact that the most emphatic denunciation of the system is contained in the following resolutions, adopted Dec. 21, 1896, by the Sydney, C. B., Board of Trade, *i. e.*, in a small town, retail shopkeepers:

"Whereas the Truck System of paying wages in goods is alarmingly on the increase in this country,

"And, whereas the system is buying up the main avenues of wealth among the masses of the people, paralyzing internal trade and investing the wealth produced through mining in the mining companies to the exclusion of the general public,

"And, whereas, in addition, precedent in Great Britain and the United States of North America instructs us of the pernicious influ-

records of the evidence of the Canadian Labor Commission:

ARTICLE.	PRICE AT COMPANY'S STORE.	PRICE AT OUTSIDE STORE.
Flour per barrel	$6.25	$5.50
Tea " pound	0.35	0.22 to 30
Sugar " "	0.09	0.08
Soap " "	0.07 and 8	0.05
Butter " "	0.22 to 26	0.20
Molasses per gallon	0.50	0.40
Potatoes per bbl	0.80	0.40 to 45

The witness, on oath, asserted that the articles at the outside stores were of the same brand and of as good quality as those sold at the company's store.*

ences of the Truck System upon the social progress of a nation; and upon the steady system of productive industry of all kinds,

"And, whereas we must have national forethought and refuse to sanction the monopoly of wealth produced by any individual, or company of individuals, by the supplanting of Canadian currency by goods for workmen,

"Be it therefore resolved, that the Board of Trade draw the attention of the Government of Nova Scotia to the grievous conditions existing and threatening to exist in the County of Cape Breton, owing to the disappearance of money from circulation by the Truck System, and urge the Governor, Council, and Assembly of Nova Scotia to enact legislation forbidding the payment of wages in goods."

However, the protests of the miners, individually, and through their associations, are too emphatic to permit us unreservedly to adopt Mr. Drummond's view. He claims that the evils of the system, which were exposed in the evidence of the Canadian Labor Commission, are things of the past; and in the mainland of Nova Scotia the Truck System has disappeared. Mr. Ochiltree Macdonald, writing from Cape Breton, insists that the evidence taken ten years since is perfectly true for the conditions of to-day; that, if there has been any change, it has been a change for the worse, not for the better. Even regarding Cape Breton, the truth probably lies in the middle between these conflicting statements.

* Labor Com. *Nova Scotia Evidence*, p. 465, and see *Nova Scotia Evidence, passim.*

The principal argument urged in defense of the practice is that, under the actual conditions of winter industry in Canada, the stores are a necessity. The mines in Cape Breton cannot be worked steadily the year through because the ports are closed by the ice. Were it not for the willingness and the ability of the company to carry their employees through the slack winter season there would be great hardship. The outside shopkeepers have neither the security nor the capital to permit them to give six or nine months credit. During four months of the year there is practically no employment in the mining districts and during that period a debt will be incurred which cannot be paid off before the summer is nearly over. However long the credit the storekeeper can obtain from the wholesale merchant it is not long enough for him to wait six or nine months for payment.

TABLE* SHOWING IRREGULARITY OF EMPLOYMENT IN MINING DISTRICT.

MINER'S NAME.	TOTAL DAYS IN YEAR.	JAN.	FEB.	MARCH.	APRIL.	MAY.	JUNE.	JULY.	AUGUST.	SEPT.	OCT.	NOV.	DEC.
A.....	173	5	...	3	18	3	24	21	26	23	22	16	11
B.....	188	5	...	3	19	17	25	21	26	25	23	14	10
C.....	207	5	...	18	18	17	26	21	26	24	23	17	11
D.....	192	5	...	3	18	18	26	21	26	24	23	17	11
E.....	204½	5	2½	17	19	17	25	21	26	25	23	14	10
F.....	189	5	...	2	17	17	26	20	26	25	23	17	11
G.....	173	5	...	2	18	18	25	18	19	25	19	15	8
H.....	195	5	...	11	19	17	24	20	25	25	23	16	10
I.....	158	5	...	2	18	16	19	18	19	23	19	14	5
J.....	184	5	...	2	18	18	25	21	26	24	23	17	4

* Canada Labor Com. *Nova Scotia Evidence*, p. 464. from the

It should be remembered, moreover, that many of the objections to the truck system are valid also as against the credit system which, in one form or other, is an absolute necessity when employment is irregular. For the laborer it is quite as hard to work his way out of debt to a private storekeeper, and probably more worrying because the storekeeper has not the same security for his debt. The private storekeeper has no means of coercion and must, therefore, charge higher prices to cover bad debts. The company stores, as a matter of fact, stop wages till the debt is reduced to manageable proportions.* The effect of the truck system of wages payment on the utility of the reward under these circumstances will be measured by the difference between credit prices and company store prices, and the greater or

evidence of C. H. Rugby, Supt. of Glace Bay Mining Co. It should be stated however that in the opinion of my correspondent Mr. Macdonald there would be no difficulty in supplying the wants of the community during the slack season were the company stores closed and supports his view by citing the fact that when the Dominion Coal Co., purchased the mine at Port Morien (C. B.) the former owner abandoned the stores on the 1st of October while the new Company did not open the stores till the 1st of May following. There was he asserts neither want nor distress in the district that winter more than there had been in previous winters when the stores were open—the outside storekeepers being quite able to carry their customers when they were no longer subject to the unfair competition of the company stores.

* The Nova Scotia Act against Truck is practically a dead letter because it permits contracting out. Frequently the employer does not even go to the trouble of requiring the formal order from his men which permits him to deduct the store bill from the wages as they are earned.

less degree of personal freedom which the victims of the two systems retain. The worker's wage, when thus paid, is not sweated by the amount of the profits of the store; for a large part of these profits is due to superior trading advantages. The profits of the stores are without doubt very large; and one of my correspondents affirms that the mine in his district is run for the store profits. The Dominion Coal Company was offered, it was said, one hundred and fifty thousand dollars for the right to run their stores; and however philanthropic the company might be, men do not go into the market to purchase charitable organizations. The defenders of the system generally protest too much about the purity of their motives. There is nothing disgraceful in a company trying to add to its ordinary profits the profits of retail shopkeeping; the disgrace lies in the abuse of the position which the employer occupies.

Of the two important elements which form the lower limit of wages the methods of industrial remuneration has the greatest influence on the utility of the reward. Less directly, the disutility of labor may be increased or diminished by the method of payment because the disutility is more than the physical energy expended. With cash payments the moral elements which enter into the sum of disutilities are likely to be reduced to a minimum, for the laborer in this way obtains the maximum of personal freedom. With truck payments the disutility is increased and the utility of the reward is

decreased: but the fighting strength of the laborer is so reduced by the system that he is able to offer little effective resistance to the lowering of the lower limit of wages. Practically the methods of remuneration exercise little influence in raising, but may exercise considerable influence in reducing, the lower limit, thus rendering an actual lower wage possible.

The chief elements of the upper limit—the employer's estimate—may be affected by the method of industrial remuneration. The efficiency of the laborer may be increased or diminished, mainly by the effect on the moral conditions of efficiency; and the wages fund may be augmented.

The output of labor is not a mere question of strength and knowledge. Willingness and hopefulness and the disposition to do one's best are almost as important as physical and intellectual qualities; and these moral qualities are peculiarly liable to be influenced by the manner in which the wages are paid. If the laborer is paid promptly, in full and in cash, he is much more likely to do his best than when his wages are curtailed by all sorts of petty exactions and his use of them restricted by all sorts of conditions.

Profit sharing and piece work tend, directly and indirectly, to raise the efficiency of the individual and, generally also, of all in the establishment, and thus tend to permit a higher wage to be paid. Not only are the expenses of management and supervision decreased, while there is less waste of material,

but the hope of greater gains acts as a powerful incentive to greater exertion. Workers paid by these methods realize, more or less, that they are being treated with justice and consideration, and they are less likely than those on time wages to be eye servants merely.

When wages are paid in cash, any feeling of resentment which the conditions of labor may have caused, generally disappears when the wages are paid, unless the wages are very inadequate; but when the control of the employer continues till the last penny earned has been expended the laborer continues to feel his economic dependence and to feel that there is no part of his life which he can call his own. This naturally leads to inefficiency, because it tempts the laborer to try to get "even" in some way. Payment of wages in truck or store orders, or at long intervals, and then not up to date, is apt to create a sense of irritation which materially reduces efficiency. Under the extreme forms of the truck system, where the laborer is convinced of the inevitableness of the tyranny and the injustice, a premium is, in effect, placed upon idleness and thriftlessness. The laborer who owes the company a large sum knows that work is assured to him whenever work is going, not because he is a good workman, but because the company naturally desires to collect part of what he owes them. It is their interest to find him work. He believes that he has been cheated by higher prices and thinks that his real is not half his nominal indebtedness; and the result is that he

tries to get even with his employers by cheating them with dishonest and scamped work. Even should he remain honest, the incentive of hope has disappeared. The most efficient workmen are discouraged by the system, for they quickly learn that not efficiency, but indebtedness at the store, is the best claim for work when employment is scarce. Payment of wages in kind, tends not only to reduce efficiency, but also to destroy those qualities which promote efficiency and to encourage habits which promote inefficiency.

The wages fund, the resources of the employer for the payment of wages, is directly affected by the methods of remuneration. The payment of wages in cash at the end of each week requires a large amount of capital, a larger amount than is required by any other method of remuneration to pay the same wages. Payment in kind means a large economy of capital and allows a larger business to be done on a given capital. It reduces payment almost entirely to a matter of bookkeeping, and by analogy might be called the clearing-house system applied to wage payments. Theoretically, it might be said that the truck system would lead to larger wages because the employer commands a larger capital. The employer is able to augment his resources by all the long credit he can command from the wholesale supply houses; and may be able to market a large part of his output before these obligations have to be met; and not only is the capital thus augmented, but additional profits are earned on the

whole of it. This holds also of deferred payments and of payments by the month or the season instead of by the week. In many instances the reasons which are offered in defense of this practice, against which the laborer protests, when stripped of their philanthropic and paternalist pretence, amount simply to this, that a great saving in capital is thus secured. There is not only the saving in office expenses when the pay sheets are made up at leisure once a month instead of once a week; there is also, and in the case of large concerns this becomes a very important item, the saving of the interest on the sum paid out in wages.* When part of the payment is withheld for some weeks, as in the case of employers who pay on the 20th of the month up to the end of the preceding month, or when part is retained in the employer's hands to the end of the year, as, for instance, the dividends in a profit-sharing scheme, or indefinitely—*e. g.*, contributions to a provident fund—the employer simply retains part of the wages as an unsecured investment, and practically compels his employees to subscribe to the capital required for his business.

Wages, however, do not necessarily rise because the resources of the employer are augmented. The wages fund is only one factor in the determination of the upper limit; and the employer is under no obligation, physical or moral, to pay out the whole of his funds. An increased wages fund simply means that higher wages are possible without neces-

*Ontario Bureau of Statistics, *Report*, 1886, iv., p. 18.

sitating a readjustment of the reward of the different economic factors in production. Moreover, this possibility may be at the actual expense of the workers themselves. They are made to contribute to the wages fund by exactions levied from the wages of their past labor. They are denied the right to spend the contract price of their labor, when and where they choose; and the probability of increased compensation in the future depends on the strength of their economic position. Those methods, however, which increase the wages fund, tend to reduce the laborer's efficiency and to weaken his position as a bargainer; and the possible good is generally converted into an actual evil. The effect of the truck system is, when the other wages factors are taken into consideration, to depress rather than to raise wages.

In a new country, where money is scarce and banking facilities rare, deferred payments or payments in kind may be a practical necessity. Were wages paid in cash they would necessarily be low; and under these conditions even the truck system may be a practical benefit to the working classes. But as the country develops, there is less necessity for making use of this primitive credit instrument and the system is banished from the industrial centres to the districts where banking facilities are still unprovided, and to industries dependent on the seasons, where a long period must elapse before the product is marketed. There is something so mean in the practice of throwing part of the burden on

the laborer, that so soon as another means of distributing liabilities over a longer period is devised, every firm which has any sort of credit and some measure of self-respect, abandons of its own accord the attempt to mulct the wages of its employees. Except in the seasonal industries, it is practiced now by the "non-profit" employers only—those whose credit is bad and who have a hard struggle to maintain their position. One of few surviving company stores in the province of New Brunswick, outside of the lumber industry, is conducted by a firm which has already failed several times; and this instance may be taken as typical of the condition of those firms which retain the system when banking facilities are provided. The assistance which such firms are able to obtain by this method enables them longer to continue the struggle against their more fortunate or more competent rivals. The destruction of the system by legislative interference would be a death blow to such employers; though it is not possible to agree altogether with a correspondent of the Ontario Bureau of Statistics in asserting that the abolition of the truck system and of deferred payments would place a premium on large industry. It would give a certain advantage to those who had capital enough for the business they had undertaken.*

* The truck system, however, is both effect and cause of the scarcity of money. During the recent agitation in Cape Breton against the truck system it was repeatedly asserted that money is being driven out of circulation (see the petition of the Sydney Board of Trade

It remains now to discuss the influence of the methods of remuneration on comparative strength of employer and employed in the wages bargain which determines where between the limits actual wages are fixed. The method of remuneration may increase or decrease the mobility of labor, may affect the capacity for combination and collective bargaining, and may strengthen or weaken the general character of the laborer.

The mobility of labor depends partly on the knowledge the laborer has of the relative conditions of labor in his own district and elsewhere. Causes which prevent him from acquiring, or even render it more difficult for him to acquire, this knowledge in-

already quoted); and Mr. Ochiltree Macdonald stigmatizes the acquiescence of the individual in the system as a crime against honest currency. In many districts trade is reduced almost to the primitive form of barter to the great disadvantage of those, farmers for instance, who have anything to sell. If these contentions are true a situation exists in that district which can be cured by legislation only, enforcing the payment of wages in cash without any possibility of contracting out. A primitive and vicious credit system seems to have obtained such a hold on the community that there is no room for the more refined credit instruments provided by the banks. It required an economic cataclysm to overthrow the truck system in Newfoundland which had been encouraged by an unsound banking system; and the intervention of the Canadian banks after the crisis of 1894 has rendered it easier to make the necessary departure from a system which had involved the whole community in ruin.

The close connection between an inadequate banking system and the prevalence of the truck system finds its best illustration in the southern states of the American Union. There the truck system has attained its fullest sway and there currency is scarcer and banking facilities less frequent than in any other section of the country.

terfere with the mobility of labor. Money wages are the calculation form of the reward; and when the reward is not paid in money, it is less easy for him to make the comparison. He may not have the knowledge or the skill to calculate what the wages are even in his own district. Mobility depends also on freedom from restrictions; and weekly cash payments alone give the laborer full command of his resources and leave him free to make what use he pleases of them. A system of deferred payments ties the laborer to the employment he has. To change he must sacrifice the deferred pay. The fact that the participant in a profit-sharing scheme has no legal right to claim a share in the profits, till the financial year is complete, restricts his movements; and the benefits of a provident fund can be obtained by those only who remain permanently in their present employment. When wages are paid at infrequent intervals and part of the pay is retained in the hands of the employer, the intention frequently is to restrict the laborer's freedom of movement. One firm posted a notice in its factory that "persons leaving the service of the company without serving the notice required shall forfeit the arrears of pay due to them" *; and though the action would be illegal, and the employees might know it to be so, the notice would doubtless have the desired effect, owing to the fact that it would require a costly suit at law to force the employer to pay. The laborer who has arrears of pay in the hands of

* Canadian Labor Commission, *Quebec Evidence* p. 1301.

his employer has given hostages to the extent of the arrears. Frequently, even when the employer is honest and law-abiding, he will pay a workman who desires to leave before the monthly pay day comes round by means of a due-bill which is cashed at a discount. In some cases, even, a deduction is made from his wages to pay the expenses of securing a new workman.* The truck system involves a still greater restriction of mobility. When a workman has got into debt at the company store, his mobility is practically *nil* till he has worked his way out; and it is said—and it is antecedently probable—that the company officials endeavor to keep him in debt in order to retain their control over him.

Trade-unionists are constantly discussing the methods of remuneration from their point of view. They naturally find the ideal method in weekly cash payments. They contend that any other system leads to the isolation and consequent weakness of the individual worker. They criticise, and if necessary, agitate against, any method which encourages the laborer to deal with his employer directly and in his own strength. Piece work and profit sharing

* Canadian Labor Com., *Ontario Evidence*, p. 1190 :—"They will charge him for the passage fee of another man to bring up (to the woods) in his place and let him go; and I have seen some concerns not pay him at all. If he wants to go he goes without any payment."

It was argued before the English Labor Commission that the payment of wages to sailors at frequent intervals would increase the danger of desertion. The present practice therefore involves, reasonably enough perhaps, a restriction of the mobility of that class of workers. Spyers: *Labor Question*, p. 200.

both, they consider objectionable because in this way the laborer is tempted to be disloyal to his class by the prospect of extra rewards for himself. Profit sharing has indeed been explicitly advocated as a method of weakening the power of the unions. They do not, as has been so often asserted, object to the higher reward of superior efficiency; but they dread the effect of the stimulus to individual exertion on the solidarity of the working classes; and they are rightly of the opinion that the interests of all are best secured by union and combination. To deferred payments and the truck system they offer the most strenuous opposition because by these methods the individual worker is made to feel his dependence on his employer. Weakness and dependence even more than the desire for exceptional wages are isolating forces; and the objections of the unions to these methods is very strong.

In spite of all that has been said by Carlyle and others against the cash *nexus*, there is no reason to doubt that it is the system which promotes the best interests of the working classes. Paternalism and sentimentalism have been discredited by the experience of generations. It is better that the relations between employer and employed should be on a pure basis of contract and that no margin of indefiniteness should remain. What is left to be understood is generally left to be misunderstood and interpreted against the interests of the weaker. Weekly cash payments are best for the working classes in almost every way. The employee remains

his own master when the contract period is over and the employer has no right to interfere. Under the truck system the laborer is under continuous supervision in his home as well as in the workshop; and one can understand why indignant opponents of the system have denounced it as scarcely disguised slavery. What is true of the truck system is true also, to a less degree, of every method of remuneration which keeps the laborer dependent on his employer after the contract period has expired. This continuous supervision and subjection is not conducive to the building up of strong characters; and the most disastrous effect of these methods is to weaken the general character of the laborer as a wages bargainer. Trade-unionism is but a substitute for character, and the mobility of labor is a result; the character of the laborer is what tells in the wages bargain—the determination of where between the limits actual wages shall be fixed.

Weekly payments, according to some who practise other methods of remuneration, promote thriftlessness and dissipation and prevent the accumulation of property; and one witness before the Canadian Labor Commission * claimed that the only difference between weekly and fortnightly payments was that the men go drunk once a week instead of once a fortnight. On the other hand the laborers strongly favor weekly payments, preferring, it may be, freedom to compulsory sobriety every alternate Satur-

* *Nova Scotia Evidence*, p. 405 ; see also *ibia.*, p. 427, and *New Brunswick Evidence*, p. 471.

day. They indignantly resent the insinuation that they are not able to manage their own domestic affairs and the miners of Cape Breton insist that they are as able to spend their wages as wisely as the workmen in Great Britain who must be paid in cash.*

The assumption that the workman cannot manage his own affairs weakens his character; and the effect of the truck system, which is sometimes justified on that ground, is to destroy all self-reliance and self-respect and remove all motive to honesty and efficiency of work. The truck system, by its injustice, makes the worker practise, and justify, all sorts of underhand evasions of his contract. Above all it promotes thriftlessness and idleness. The Hon. Robert Drummond said from his place in the Legislative Council of Nova Scotia that the system was an abomination and a premium on beggary; and elsewhere he declared that it had a "tendency to foster thoughtlessness and beggary." This is the natural effect of the truck system everywhere. Those who run bills at the store are the favorites in the factory and the mine. To encourage the others, they receive the best places in the mine, and during the slack season they are given what work there is to be given that they may have an opportunity of reducing their debt to the store. The industrious and thrifty find that constantly the idle and the dissipated have the preference. Those who take no responsibility for themselves, but run up bills, know-

* Newspaper report of a meeting at Glace Bay, Nov. 13, 1896.

ing that it is the company's interest to provide them with work, are the fortunate ones of the community; and the whole community is demoralized through their influence.

The economic crisis in Newfoundland in 1894 was a striking instance of the complete demoralization of a whole community under the truck system. The system was of old standing. Nearly a hundred years ago the governor of the island tried by an edict to suppress it. It was not destroyed, but, on the contrary, tightened its grasp on the business of the country. Everyone deplored it, but no one could give it up. It promoted dishonesty and crime and universal distrust; but it required an economic disaster to overthrow it. Everyone suffered by it, the workmen most of all. He was ground between the upper and the nether millstones—the fickle sea and the burden of his long-standing debts. He could hardly call himself his own, and many a Newfoundland fisherman passed from the cradle to the grave without ever having seen a piece of money. No one really profited by the system, and Black Monday, the 10th of December, 1894, was the day of salvation for the "planter" as well as the fisherman.

The effect of the truck system on the character of the laborer depends altogether on the degree of coercion employed. Where no compulsion is used, company stores with their superior trading facilities might prove almost as great a benefit as the co-operative stores. It is generally claimed that the

workman is left free and some employers prefer to run the stores for the benefit of the workmen. But it is difficult to say what is and is not compulsion. Many witnesses before the Canadian Labor Commission began by denying that there was any sort of compulsion to deal in a company store; and ended by admitting that there was discrimination in favor of those who dealt there. The prospect of an extra profit is a sufficient incentive for the exercise of some kind of coercion. The companies, as one man said to me, who had experience in running these stores, are not in it for their health, and a member of the legislature of New Brunswick, whose firm used to run several such stores, assured me that where compulsion in some form is not exercised the stores are seldom profitable.

Compulsion in its most brutal form is rarely exercised anywhere now in Canada but in the shape of discrimination it still flourishes in Cape Breton. Freedom may be absolute in name, but it may be little more than freedom to starve. When a storekeeper is able to place those who are not his customers at a disadvantage in the competition for work compared with those who deal with him he can bring a good deal of pressure to bear. The evidence taken by the Canadian Labor Commission affords many instances of this indirect compulsion. Employers confessed that they did prefer those who dealt at the store, that they did discriminate in their favor, that unmarried men were not so likely to find employment as married men

with families who dealt at the store.* Pressure exercised in this form is practically compulsion; and few are strong enough to resist it. Circumstances naturally determine what amount of compulsion can be used. An obstinate man with great social or political influence may resist successfully and receive his wages in cash; but the greater the necessity of the individual the more likely he is to succumb.

The truck system destroys the freedom of the laborer; and with his freedom goes his power of resistance. He is no longer master of himself and therefore there is less hope that in the trial of strength which precedes the determination of the wages bargain the victory will lean to his side.

* *Nova Scotia Evidence*, p. 317; *New Brunswick Evidence*, p. 407, *et passim*.

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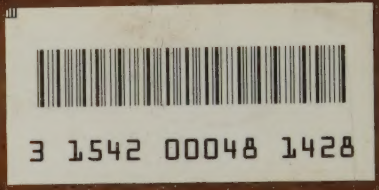
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